Why the annual budget is not dead
Contingencies affecting the relevance of the budget critique

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Abstract
The aim of this study is to investigate how companies within different industries that use budgets perceive the critique that has been raised against it. As such, this study explores whether the companies find the critique valid and if so, whether and how they have managed to cope with the problems that the budget has been argued to entail. Additionally, this study explores the potential impact that the external and internal context of the budget may have on these perceptions. Utilizing on a qualitative case study research design, our findings indicate that the relevance of the critique is contextually contingent with regards to both the external and the internal environment of a company. Consequently, the likelihood for the alleged problems of the budget to appear is greater when the alignment between a company’s external and internal environment and the employed budget purpose is poor, and/or when the budget’s cohesiveness with other management control systems within a certain management control system-package is deficient. Thus, in contrast to the critics, we argue that budgets should not be seen as a static and stand-alone practice as it evidently constitute a multifaceted and contingent practice.

Key words:  Budget, the critique against budgets, beyond budgeting, management control system, contingency theory, contextually contingent.
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1. Introduction
The budget has for many decades played an important and central role to most organizations’ management control systems (Bunce, Fraser & Woodcock, 1995; Malmi & Brown, 2008; Otley, 1994) as it has constituted the only process that covers all areas of organizational activity (Otley, 1999). Naturally, the role of the budget has been one of the most widely studied topics in management accounting (Luft & Shields, 2003) and a large portion of the recent, often practice-led, discussions about budgeting has revolved around the criticism against it (Hansen, Otley & Van der Stede, 2003). Although the criticism has been dispersed and targeted many different aspects of the budget, a widely shared opinion has been that traditional budgeting is not fit for the contemporary business environment. It has been argued that the budget was developed to address the challenges present in a relatively stable environment, “when the supplier rather than the customer was king” (Bunce et al., 1995, p. 254). However, the business environment has undergone a major shift the last decades, from “steady, continuous change” to “unpredictable, discontinuously change” (Hope & Fraser, 2003a) where the competitive pressure includes global competition, rapid commercialization of technology, and the use of new management techniques (Bunce et al., 1995). The market place has become volatile, highly competitive and customer-driven, and these new realities are channeling many companies towards major changes in their organizational structures, skills and activities. In relation to the changing environment, the traditional budget has been found to be inadequate in its ability to respond to the new market imperatives. (Bunce et al., 1995) Faced with the need of becoming more “agile” and “adaptive” (Hope & Fraser, 2003a), companies’ budgets have been deemed “a joke” (Jensen, 2001), “a thing of the past” (Gurton, 1999), an “unnecessary evil” (Wallander, 1999), and even “the last bastion of Soviet-style central planning” (Hope & Fraser, 2003a).

1.1 Problem formulation
Recent criticisms against traditional budgeting have stemmed from practitioners and have been argued most forcefully by the Beyond Budgeting Roundtable (BBRT) who advocates that companies should abandon the budget completely as it is inherently flawed (Hansen et al., 2003). The weaknesses of traditional budgeting put forward by practitioners and the academia can in general terms be compiled to the following aspects (Hansen et al., 2003; Libby & Lindsay, 2010):
• Budgeting consumes a lot of managerial time, which makes it a costly process, and the benefits may not be worth the costs. (Hansen et al., 2003; Hope & Fraser, 2003a, 2003b; Wallander, 1999; Wallander, 2003)

• Budgets inhibit firms from adapting to changes in a timely manner due to their fixed nature. (Gurton, 1999; Hansen et al., 2003; Hope & Fraser, 2003a; Wallander, 1999)

• The budget process is disconnected with strategy, thereby putting it out of kilter with the competitive demands facing firms. (Hansen et al., 2003; Hope & Fraser, 2003a; Kaplan & Norton, 2001)

• The use of the budget as a fixed performance contract leads to unreliable performance evaluation and promotes budget gaming. (Hansen et al., 2003; Hope & Fraser, 2003a; Hopwood, 1972; Jensen, 2001; Merchant, 1990)

Although it has been widely argued that the traditional budget contains these aforementioned problems, recent quantitative survey research has shown that budgets still play a central role in a majority of organizations on different continents (Ekholm & Wallin, 2000; Libby & Lindsay, 2007; Libby & Lindsay, 2010). Yet, while this research has made important contributions towards further developing our understanding of budgeting, the predominantly employed questions and methods that has guided it has been limited to assessing the extent to which top management within organizations agree to the criticism. By limiting the research scope to the views held by top management, it could be argued that this research exhibit a selection bias regarding companies’ perception of the budget critique, as top management of companies that use budgets presumably have a more favorable mindset towards it than managers on lower levels, as they are responsible for the budgets’ continued use. Consequently, this recent research has not been able to fully assess the degree to which different organizational levels agree to the criticism. Furthermore, it has neither been able to capture how the criticism has been dealt with inside the organization, nor how the continuous use of budgets could be explained by the external and internal context in which budgets are being used. As such, there seems to exist a need for further research in the area to address the contradictory result that budgets are continuously being used in contemporary organizations despite the criticism raised against it. The rationale for these results can intuitively be explained by (1) the critique is not justified, (2) the critique is justified but companies have found ways to mitigate the problems, or (3) the critique is justified, companies have not found ways to mitigate the problems but they continue to use budgets as they are so deeply ingrained in organizations’ fabric. To further explore this matter and to build a better
understanding for how and why companies continue to use budgets as a mean for management control calls for more in-depth qualitative case studies (Hansen et al., 2003; Libby & Lindsay, 2010) were the external context and different organizational levels are emphasized, and where the budget is not studied in isolation but rather as a dynamic part of companies’ management control system-package (Chenhall, 2003; Malmi & Brown, 2008).

1.2 The aim and purpose
The aim of this study is to investigate how companies within different industries that use budgets perceive the critique that has been raised against it. In doing so, this study is dedicated to address the identified research void on three analysis levels. Firstly, this study will explore whether companies’ different organizational levels find the critique valid. Secondly, this study will investigate their perceptions regarding whether and how they have managed to cope with the issues that the budget has been argued to entail. Lastly, this study is dedicated to explore the potential impact that the external and internal context of the budget may have on these perceptions. In addressing the identified research void, the purpose of this study is to contribute to the existing range of research by providing a more qualitative study of a diversified set-up of companies focusing on key issues with budgeting where the budget is emphasized as a dynamic and integral part of companies’ external and internal context. As such, this study is therefore neither attempting to validate or discard hypotheses regarding the validness of the critique, nor to make generalizations in general, but rather to capture and explore a diversity in how companies approach the challenges that the budget has been argued to entail.

1.2.1 Delimitations
In addressing the aim and purpose of the research conducted, several delimitations have been considered. While some of them stems from the chosen research methodology, others are the result of deliberate considerations. The perhaps most noteworthy delimitation is related to the theory used in analyzing the findings. Although the theoretical frameworks employed, i.e. contingency theory and the management control system-package, have the potential to facilitate the generation of a better understanding in relation to the research area, its very nature assumes that explanations can be rationally derived. Yet, as stated in the introduction, one cannot ignore the possibility for irrational explanations for why companies continue to use budgets. Furthermore, as this case study seeks to capture practitioners’ perceptions of the research area, one should not emphasize the findings as a reflection of an objective reality.
2. Theory
The theory chapter is organized around three different sections. The first section covers the critique against the budget together with related research. The second section illuminates budgeting practice from a multifaceted view where the budget is emphasized as part of a company’s management control system-package. Lastly, the third section highlights the budget as part of wider external and internal environment.

2.1 Budgeting and the critique against it
The textbook definitions of the budget usually emphasize the role of budgeting as an operative tool for management control. According to Anthony and Govindarajan (1995, p. 370) “an operative budget usually covers one year and states the revenues and expenses planned for that year”. Its characteristics include the commitment to objectives by management, the review and approval by a higher authority, binding and restricting nature of the process, and the periodical variance analysis of the budget (Henttu-Aho & Järvinen, 2013). Budget’s steady role within organizations has commonly been explained by its “ability to weave together all the disparate threads of an organization into a comprehensive plan that serves many different purposes, particularly performance planning and ex post evaluation of actual performance vis-à-vis the plan” (Hansen et al., 2003, p. 96). Likewise, Otley (1999, p. 97) has argued that the budget is “the only process that covers all areas of organizational activity”. Yet, although budgets historically have had a steady role within organizations it has received a lot of criticism. The critique have, as put forward in the introduction, been dispersed and targeted many different aspects of the budget, ranging from the creation of condemnable behaviors within the organization, to being a tool that is unable to cope with changing external prerequisites. The extensive criticism put forward by practitioners and the academia can generally be compiled into four major aspects (Hansen et al., 2003; Libby & Lindsay, 2010). Each of these potential weaknesses of the budget will be addressed more closely below together with prior research in relation to the alleged criticism.

2.1.1 Criticism 1
Budgeting consumes a lot of managerial time, which makes it a costly process, and the benefits may not be worth the costs.

As budgets constitute such a major part of many organizations’ management control systems, its use would be highly counterproductive if the perceived benefits did not outweigh its associated costs. However, this is precisely the argument that is put forward by the critics. Budgets are argued to add little value, especially given the time required to prepare them (Hansen et al., 2003) and Wallander (2003, p. 137) contends that they do not lead to anything
more than “uninteresting or at times dangerous results”. Although the budgeting process is an annual ritual that is deeply embedded in most organizations’ corporate calendar, Hope and Fraser (2003a, p. 4-5) argue that its benefits are highly uncertain considering the huge amount of time it absorbs. In essence, the critics’ main argument is that the value of budgeting decreases a lot due to its cumbersome and unreliable nature. As a result, the critics argue that it takes time away from activities that adds greater value, such as supplying managers with the information they need to make decisions (Wallander, 1999). The aforementioned reasoning was evident in a global best-practice study conducted in 1999, which revealed that managers in various organizations spent only one fifth of their time analyzing and interpreting the numbers; they spent the rest of their time doing lower-value-added activities such as gathering and processing data, often for budget-related discussions (Hope and Fraser, 2003b).

Notwithstanding this criticism, a vast majority of companies in a study by Libby and Lindsay (2010) reported that they would continue to use budgets for management control purposes, presumably because they perceived the benefits of doing so outweighed the costs. The time spent by the managers in preparing the budget was significantly less in their study than those reported by Hope and Fraser (2003b). It appeared that a majority of the firms were finding ways to obtain considerable value from their budgets, which would indicate that the budget process was adding value to the organizations, or at least to the top managers themselves. This illustrates how the opposing view of critics and proponents diverge regarding whether the budget is adding value to organizations or not.

2.1.2 Criticism 2

*Budgets inhibit firms from adapting to changes in a timely manner due to their fixed nature.*

The second critique relates to the recurring criticism that by the time budgets are put into use, their assumptions are typically outdated, which thus reduces the value of the budget process (Hansen et al., 2003). A more radical version of this criticism is that conventional budgets never can be valid because they cannot capture the uncertainty involved in rapidly changing environments (Wallander, 1999). It has been argued that the binding characteristic of the budget inhibits firms from being competitive in today’s business environment where firms’ flexibility is crucial (Gurton, 1999). To this point, recent findings have shown that environmental uncertainty is a primary driver of dissatisfaction with budgets (Hansen et al., 2003). While it has been argued that firms can respond to changes in their environment by introducing more frequent and streamlined planning and budget processes (e.g. rolling
budgets, zero-based budgeting, balanced scorecards), Hope and Fraser (2003a, p. 6-9) claim that for most firms it has resulted in even an increased workload, higher costs and continuously lagging and financially oriented management control systems. Libby and Lindsay’s (2010) survey results support the assertion that the budget process is weak in helping firms deal with adapting to changes. However, even though Libby and Lindsay (2010) do not provide specifics, they conclude that firms adjust their budget targets in various ways to mitigate this concern and adopt processes aside from the budget when necessary. In this respect, the case study findings of Frow, Marginson and Ogden (2010) illustrates how firms combine budgeting with other management control systems to meet the potentially competing objectives of flexibility and adaptation towards changes on the one hand, and the achievement of specified financial targets on the other. Yet, the combination of other management control systems seems not to be the only approach to mitigate the issue. Abernethy and Brownell (1999) conclude that budgets alone can support adaptation to changes if used interactively by altering the structural arrangements within the organization to enable an information exchange process between different levels of organizational members that is interactive and dynamic. As such, research regarding whether budgets inhibit firms from adapting to changes seems to be ambiguous and inconclusive as firms utilizing on budgets provide contradictive opinions that from an academic standpoint are unexplained for.

2.1.3 Criticism 3

The budget process is disconnected with strategy, thereby putting it out of kilter with the competitive demands facing firms.

Another common criticism put forward by the critics is based on the claims that budgetary controls rarely are strategically focused, that it might lead to sub-optimization, and that it focuses on cost reductions rather than on value creation (Hansen et al., 2003). Most companies use the budget as their primary management control system for establishing targets, allocating resources, and reviewing performance. Yet, in a study by Kaplan and Norton (2001), a majority of companies indicated that their budgeting and performance review process were done separately from the strategic planning process. In their view, and since budgets are used as the primary means to exercise control in organizations, management attention becomes riveted on achieving short-term financial targets. The budget process might also lead to sub-optimization within the organization as departmental managers often are too keen to improve their own department without considering how this may fit with the broader strategic goals (Hope and Fraser, 2003a, p. 25). The criticism that budgets are poorly linked to
strategy is however disputed by Libby and Lindsay (2010) who conclude that the budget process is used in many firms to promote strategically focused behavior and is recognized as being an important mechanism for doing so. The case study by Frow et al. (2010) supports this view as their findings illustrate how budgeting today is better understood as being involved with processes of strategic implementation rather than the more narrow focus of simply ensuring pre-set budgetary targets are actually achieved. Yet, this should not be seen as an unproblematic fact as another recent case study by Bourmistrov and Kaarbøe (2013) reports on how companies embracing the beyond budgeting philosophy felt that previously employed budgeting practice were not strategically relevant in fast-changing markets. They contend that budgeting practice often is associated with the establishment and maintenance of decision-maker “comfort zones”, meaning that employees and middle managers had established feelings of assurance, safety, clear-cut responsibilities for spending financial resources within budget limits, that did not facilitate the generation of necessary information for making strategically relevant decisions in the context of continuous changing markets. Again, this illustrates how recent research findings diverge in the matter.

2.1.4 Criticism 4

The use of the budget as a fixed performance contract leads to unreliable performance evaluation and promotes budget gaming.

This criticism relates to the assertion of budgets as a means that encourage gaming and perverse behaviors (Hansen et al., 2003). According to Hope and Fraser (2003a, p. 21-22), organizations that use budgets usually set targets on the basis of financial numbers that, more often than not, are negotiated between superiors and subordinates before the start of the year. The numbers are fixed for the year ahead and represent the key component of the “annual fixed performance contract”. Rewards are then linked to a fixed outcome agreed to in advance. Managers know (and supposedly therefore accept) that this element of the budget contract leads to gaming. The results from the study conducted by Libby and Lindsay (2010) are consistent with the view that gaming is a commonly recurring phenomenon in relation to the budget process. However, Jensen (2001) argues that it is not the budget process itself that is the root cause of the counterproductive actions; rather, it is the use of budget targets to determine compensation. When managers are told they will get bonuses if they reach specific performance goals, Jensen (2001) argues that two things inevitably happen. First, they attempt to set low targets that are easily achievable. Then, once the targets are in place, they do whatever it takes to ensure that they hit them, even if the company suffers as a result. The
latter has been evident in several studies (e.g. Hopwood, 1972; Merchant, 1990) which have found that the budget pressure facing managers leads to dysfunctional and manipulative behavior such as pulling income from the subsequent year by delaying expenditures, accelerating sales or by shifting funds between accounts. Such studies indicate that management incentives coupled to budgets and/or the felt pressure to achieve budget targets are factors that correlates with the degree of manipulative behavior, especially in relatively uncertain environments. As such, the criticism that budgets promote gaming has not been a matter of controversy as even the proponents of the budget confirm it. What perhaps remain uncertain is whether it is the mere use of budgets that is the root cause of the issue and whether the entailed costs of gaming outweigh the benefits associated with the budget. On the whole, the different critiques put forward by practitioners and the academia are founded on the notion that the potential costs of management control systems can be much greater than just the out-of-pocket costs (e.g. Merchant, 1990; Ridgway, 1956). Thus, this latter critique, along with criticism two and three, are highly related to criticism one; whether the benefits of the budget outweigh its costs.

2.2 A multifaceted view on budgeting
As budgets historically have played a dominant role within many organizations’ management control systems, much research have treated it as a static stand-alone practice and consequently studied it in isolation (Hansen & Van der Stede, 2004). Such research have on the one hand had a tendency of studying budgets as if the underlying purpose for using budgets were shared by all firms and limited in numbers, and on the other hand as if budgets were operating in a vacuum disconnected from firms’ other management control systems.

In terms of budget purposes, prior research (e.g. Hope & Fraser, 1997, 2000, 2003a, 2003b; Jensen, 2001; Marcino, 2000; Schmidt, 1992) have predominantly focused on the alleged dysfunctional consequences of budgetary controls in the context of budget use for performance evaluation. Yet, Hansen & Van der Stede, (2004) argue that other potential purposes for budgeting, such as for operational planning and strategy formation, have received less focus and consequently been partly overlooked. The reason for this is according to Abernethy and Brownell (1999) that the vast majority of prior research within management accounting has implicitly or explicitly assumed that budgets serve what Simons (1990, 1991) refers to as a “diagnostic” role, and what Burchell, Clubb, Hopwood, and Hughes (1980) earlier referred to as an “answer machine” role. In such a role, budgets serve the purpose of evaluating performance and attributing responsibility for outcomes to particular
organizational functions or members. However, studies such as Abernethy and Brownell (1999) have shown that budgets also can be used as a dialogue, learning and idea creation machine (Burchell et al., 1980), or what Simons (1991, 1994) referred to as an “interactive” role. According to Simons (1991) the interactive use of budgeting provides a vehicle for top management to reveal their values and preferences to organizational members. It enables the interchange of information concerning the opportunities, threats, strengths and weaknesses that exist as the organization reorientates itself in the market. Abernethy and Brownell (1999) argue that an interactive use of budgeting can provide a means for debating how to respond to changes in environmental and operating conditions, or what Macintosh and Quattrone (2010) described as a “catalyst for debate” that help organizational members reach a compromise rather than providing the “answer” (p. 179). To this point, Hansen & Van der Stede (2004) conclude that budgets play different roles in organizations, and that different purposes for budgeting have different antecedents that influence each budget purpose’s performance in different ways. Prior work also suggests that different purposes for budgeting are not determined in isolation of one another (e.g. Moores & Yuen, 2001), which in turn suggests that different purposes are likely to be correlated or even exhibit overlap (Shields & Shields, 1998). The latter is especially interesting considering Fisher, Maines, Peffer & Sprinkle’s (2002) proposition that the combination of several budgeting purposes can create more value than the individual purpose used separately. Thus, such research suggest that budget processes should be studied as a dynamic and flexible management control system in contrast to the critics’ predominantly employed view on traditional budgeting as a static and stand-alone practice.

In terms of the interplay between the budget and other management control systems, new developments in budgeting have extended the budgetary concept emphasized by the critics. Recent studies indicate that many contemporary organizations have developed their budgeting processes by introducing new tools and techniques running parallel with the traditional budgeting process. Sivabalan, Booth, Malmi & Brown (2009) for instance have found that depending on the employed budget purpose, firms may use rolling forecast in tandem with the annual budget. Likewise, Henttu-Aho and Järvinen (2013) conclude that organizations may complement their budget with other tools and techniques to serve the traditional budget functions such as planning, control and evaluation. To this point, Flamholtz (1983) argues that budgeting per se should not be seen as a control system, but rather its integration and interplay with other control systems. This implies that if specific management control system
are systematically linked with other systems, studies that exclude or do not control for these elements may report spurious findings, what Chenhall (2003) refers to as serious “model underspecification” (p. 131). On the other hand, studies adopting a more holistic approach towards budgeting have found that the dysfunctional effects of budgeting can be repaired by widen the scope of management control systems (Frow et al., 2010). Yet, as argued by Otley (1980), the simultaneous use of a wide range of control mechanism serving multiple purposes makes it difficult, if not impossible, to isolate the effect of any specific means of control. Taken together, this implies that although much of the management accounting research consider single themes or practices that are seemingly unconnected from each other and the context in which they operate, these invariably sit within a broader control system (Chenhall, 2003).

### 2.2.1 Management control system package

According to Malmi and Brown (2008), the budget is part of a larger management control systems (MCS) package (Figure 1). They have chosen to define the MCS-package as all the systems, rules, practices and values that managers may use in order to ensure themselves that their employees' behaviors and decisions are in line with the organization's objectives and strategies. More specifically, they have divided the control systems into five different components; cultural, planning, cybernetic, reward and compensation, and administrative controls.

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**Figure 1. Management control systems package (Malmi & Brown, 2008, p. 291)**

The *culture controls* consist of the values, beliefs and social norms that influence employees’ behavior. The *planning controls*, which can be both long term as well as short term oriented, aim to direct efforts and behaviors by stating goals for the various areas of the organization,
provide the standards to be achieved in relation to the goal and enable co-ordination through aligning a set of goals within the organization. The cybernetic control systems consist of four different components; budgets, financial measures such as ROI and EVA, non-financial measures such as quality and customer satisfaction, and hybrids that contain both financial and non-financial measures – e.g. balanced scorecards (BSC). Reward and compensation systems focus on motivating and increasing the performance of individuals and groups within organizations by achieving congruence between their goals and activities and those of the organization. Administrative control systems concern the steering of behavior through organizational structure, the governance structure, and the policies and procedures that exist within the organization. (Malmi and Brown, 2008) The main reason for emphasizing the budget (or any other MCS) as part of a MCS-package is the conviction that each of these control systems can influence other components within the MCS-package, which means that the budget both can affect and be affected by other control systems simultaneously. Consequently, Malmi and Brown’s (2008) MCS-construct do not only imply that the budget should be studied in a wider context, rather than in isolation, but it also constitute a comprehendable and generic typology for doing so.

While Malmi and Brown’s (2008) MCS-package offers an opportunity to explore the strengths and weaknesses of budgeting practice as a result of its interplay with other MCSs, the effective design and use of the MCS-package on the whole is in turn dependent on other environmental contingencies (e.g. Chenhall, 2003; Johnson & Kaplan, 1987; Kaplan, 1983). This implies that although budgets along with other MCSs may be designed and used according to conventional management accounting wisdom, its appropriateness and effectiveness is nevertheless contingent on its alignment with the environment of the firm.

2.3 Contingency theory

“There is no such thing as “good organization” in any absolute sense. Always it is relative; and an organization that is good in one context or under one criterion may be bad under another.” (W. Ross Ashby, 1968)

Contingency theory is a class of behavioral theory that states that there is no best way to organize and lead a firm, or to make decisions in general. The optimal course of action in any given situation is instead contingent (dependent) upon the internal and external situation. Early research by Lawrence and Lorsch (1967) proposed that different environments place different requirements on organizations. Specifically, they claimed that environments
characterized by uncertainty and rapid rates of change in market conditions or technologies present different challenges – both constraints and opportunities – to organizations than placid and stable environments do. The theory is guided by the general orienting hypothesis that organizations whose internal features best fit the demands of their environment will achieve the best adaptation (Scott, 1981, p. 96). Galbraith (1973, p. 2) argues that a wide range of effective organizations exists but their differences are not random, the form of organization makes a difference.

Organizations are inevitably confronted with new elements in their environment when strategically relevant changes occur. These changes would constitute a severe threat to the survival of the organization if it fails to align its operations to the new prerequisites. The contingency theory explicates the importance for a firm to adapt the current organization to the new situation. Even though the theory recognizes that there is some room for strategic choice, in the long run no organization will survive if it does not adapt adequately to the environment. It is an essential necessity in order to achieve a strategic fit. (Forsgren, 2008 p. 97) The contingency theory tries to “open up” the organization and formulates propositions regarding how the environment impinges on the strategic behavior of the organization. Expressed succinctly, the assumptions underlying the theory are the following:

- There is no one best way to organize (Galbraith, 1973, p. 2)
- Not all ways of organizing are equally effective (Galbraith, 1973, p. 2)
- The best way to organize depends on the nature of the environment to which the organization must relate (Scott, 1981 p. 96)

The first assumption challenges the conventional wisdom of administrative theorists who sought to develop general principles applicable to organizations in all time and places. Such a quest not only overlook the vast diversity of existing organizational forms but also fails to recognize the great variety of tasks undertaken by organizations. The second statement challenges the view, held by early economists developing organizational theory, that a firm’s structure is irrelevant to organizational performance. (Scott, 1981 p. 96) Instead, depending on the environment and the task, one form of organization can be more beneficial for the performance than another (Forsgren, 2008 p. 74). Therefore, and as stated in the third supposition, the nature of the organization’s environment plays a crucial role. In order to achieve a high performance, an appropriate fit between the environment and how the activities are structured within the organization is required. (Scott, 1981 p. 96) Another,
although implicit, assumption of the theory is that the fit is achieved by the organization adapting itself to the environment, rather than the contrary (Forsgren, 2008 p. 74).

2.3.1 Contingency theory and MCS
The study of MCSs through a contingency-based research perspective has a long tradition in the academia. The conventional, functionalist contingency-based approach to research assumes that MCSs are adopted to assist managers achieve some specific organizational outcomes or organizational goals. The identification of contextual variables potentially implicated in the design of effective MCSs can be traced to the original structural contingency frameworks developed within organizational theory where theorists such as Lawrence and Lorsch (1967) and Galbraith (1973) first emphasized that the external environment and technology had an impact on the organization. Researchers have since then attempted to explain the effectiveness of MCSs by illuminating designs that work best in conjunction with these two variables and additional contextual factors affecting the organization such as size, structure, strategy and national culture. (Chenhall, 2003)

A substantial amount of research holds that there is no universally best design for a MCS; it all depends upon the aforementioned situational factors. However, assent to such general propositions does not automatically produce a consensus regarding which specific contingencies that should result in what particular configurations of the MCS. (Chenhall, 2003; Otley, 1980) Even though a considerable body of literature has provided a basis for many generalized propositions between elements of MCSs and context, the research is far from complete or altogether consistent. Chenhall (2003) illuminates how lack of consensus exists in prior research by synthesizing several contradictory and ambiguous results throughout the years. There is also a big difference in regards to how much research that has been devoted to the various contextual variables, as well as to the different MCSs. For instance, few MCS studies have explicitly considered size as a contextual variable and there have been very little published contingency work on hybrid- and non-financial measurement systems. Furthermore, as the specific attributes of the environment are continuously changing, recent research has emphasized and considered the relevance of additional contextual variables to the design of an effective MCS. For instance, the external environment that most organizations face in today’s business environment includes increased social pressure on issues such as environmental ecology and the economic and social well-being of employees and society, implying that these factors must be considered in an organization’s MCS-package in order to operate effectively. (Chenhall, 2003)
All in all, even though there are areas and connections that still need to be explored and deciphered in relation to contingency theory and MCSs, there is little doubt that the firms’ internal and external environment affect the effectiveness of the design and use of MCSs. Yet, as Dermer (1977) argues, the intent of emphasizing the design of any planning and control system as contextually contingent is not to propose how firms should design and use MCSs in a specific context but rather to convey the fact that there are a number of possibilities for how a MCS could come into use in any particular context. A vivid example of this can be illuminated by comparing Handelsbanken, the pioneering exemplar case of Beyond Budgeting, and Johnson & Johnson in relation to their use of budgets. These two firms share a number of characteristics in their internal contexts such as a strongly decentralized management system; a strong culture, including a culture of information sharing; subjective evaluations and the use of interactive control systems (Libby & Lindsay, 2010). However, despite these common denominators they differ substantially when it comes to their view of budgeting. Johnson & Johnson relies heavily on their use of budgeting for management control purposes while Handelsbanken on the other hand claim that they, for various reasons, have abandoned the budget completely (Libby & Lindsay, 2010). This shows how companies with somewhat similar internal characteristics, although in different industries, can emphasize the budget entirely different within their MSC-package and still be highly successful in their area of business.

2.4 Summary of theoretical framework
The budget is usually characterized as an operative tool for management control and despite its alleged flaws, put forward by both practitioners and the academia, it continues to have an important and central role in most organizations worldwide. In relation to the critique against the budget, prior research have predominately treated the budget as a stand-alone practice and consequently studied it in isolation. Such research have on the one hand had a tendency of studying budgets as if the underlying purpose for using budgets were shared by all firms and limited in numbers, and on the other hand as if budgets were operating in a vacuum disconnected from firms’ other MCSs. This study will emphasize that the purpose of the budget can differ from one company to another, and also treat the budget as a part of a larger MSC-package where the budget both can affect and be affected by other MSCs simultaneously. The appropriateness and effectiveness of a company’s MCS-package on the whole are in turn dependent on other internal and external contextual variables. According to contingency theory there is no universally best design for a MCS; the effectiveness depends
entirely upon how well its design is aligned with the internal and external contextual factors surrounding the organization, such as the environment, technology, size, structure and national culture.
3. Research methodology

In addressing the aim and purpose of this study we have chosen to conduct a small series of qualitative case studies. Prior research within the area (e.g. Ekholm & Wallin, 2000; Libby & Lindsay, 2010) have predominantly conducted quantitative survey studies of representative samples where the focus has been on assessing the extent to which budgets are being used and the extent to which top management within organizations agree to the criticism raised against the budget. Although such studies have made important contributions towards further developing our understanding of budgeting, they have neither been able to fully capture how the criticism against budgets have been dealt with inside the organization, nor whether the continuous use of budgets can be explained by the internal and external context in which budgets are being used.

Qualitative studies have been argued to be rewarding when one as a researcher is seeking to explore individuals’ experiences and behaviors, and when used in conjunction with inductive and explanatory research, qualitative studies have the potential to guide the researcher towards explanations regarding a certain phenomenon (Ghauri & Grønhaug, 2005, p. 110-111). However, since the purpose of this study neither is to generate a theory, nor to test existing theory using hypotheses, the chosen approach consists of a combination of inductive and deductive elements, also known as an abductive approach (Alvesson & Sköldberg, 2009; Dubois & Gadde, 2002). Employing a combination of the two distinctive approaches have been argued to be rewarding (Saunders, Lewis & Thornhill, 2009, p. 127) as the role of theory in such an approach is to illuminate, not to indicate some form of truth, and due to that explanations are derived from an inter-related mix of theory and observation (Scapens & Roberts, 1993). Theories are used to make sense of observations and observations are used to develop theory, as such, an abductive approach is fruitful if the researcher’s objective is to discover new things – other variables and other relationships (Alvesson & Sköldberg, 2009; Dubois & Gadde, 2002). However, as Scapens and Roberts (1993) put forward, explanation comes from the cases, not from some theory that is imposed on the case. Thus, the theory that informs this study is operationalized in such way that the critique against budgets are used to form questions and focus the study towards a much debated aspect of budgeting, whereas the MCS-package and the underlying contingency theory is used as an analytical model whose concepts serves the study with a framework for describing and pin-pointing the observations within a generic and comprehensible typology. We argue, in line with Otley (1980), that emphasizing the internal and external environment in which management accounting
practices operate is of vital importance in order to further explore and deepening the understanding for management accounting practices.

Similarly as Eriksson and Kovalainen (2008), we believe that qualitative case studies should avoid excessively simplistic research designs and rather leave room for diversity and complexity to increase the understanding of the research topic. To this end, our study reflects the perspective of both emic and etic modes (Henttu-Aho & Järvinen, 2013; Kakkuri-Knuuttila, Lukka & Kuorikoski, 2008). We follow the emic account in our case studies, that is, we are open to the accounts of our interviewees about their perception of budgeting without the strict ex ante definitions of budgeting, the critique against it, or other MCSs. Nevertheless, we must still revert to the etic mode in our study to enable reflections on our case study findings in relation to earlier budget related research as well as other MCS- and contingency theory navigated research. Our conviction is that by employing Malmi and Brown’s (2008) MCS-package while emphasizing the insights from different organizational levels as well as companies’ external prerequisites and contingencies, and as such study the budget in a wider context, this study have the potential to capture and explore unanticipated relationships between the budget and its context that would contribute to the existing research on budgeting.

3.1 Generating material
To fulfill the aim and purpose of this study we have chosen to rely on semi-structured interviews. According to Saunders et al. (2009, p. 323-324), conducting such interviews are useful when one as a researcher is keen to understand the rationale behind each respondent’s view, which is certainly the aim of this study. In advance of the interviews, a set of basic questions regarding the critique was prepared to address each respondent’s view on the four major critiques raised against the budget. During the interviews the respondents were encouraged to freely raise and describe opinions and issues in-depth, and follow-up questions were asked on an ad hoc basis to extract as much valuable information as possible. By doing so, we believe that the risk for overlooking the underlying rationale for each respondent’s view could be partly mitigated.

3.2 Trustworthiness
The chosen method has some noteworthy implications for the trustworthiness of this study. Positivists often question the trustworthiness of qualitative research, presumably as a result of the poor applicability of their concepts of validity and reliability (Shenton, 2004).
In terms of the validity of this study, one should note that the social reality in which accounting practices are embedded must be interpreted by the researcher (Scapens & Roberts, 1993). Case study researchers rely to a considerable extent on the descriptions of events provided by organizational participants. These descriptions are themselves based on the individual participant’s own interpretations of their social reality. Thus, this case study comprises interpretations of interpretations and consequently does not represent unproblematic facts concerning some absolute reality. However, this study is not attempting to locate some universal truths or generalizable theories that explain accounting practice. It is our interpretation of the particular circumstances of the cases that provide explanations.

In terms of reliability, it is often argued that non-standardized studies are weak as they are conducted to reflect the reality at a given time, a reality that often is complex and dynamic (Saunders et al., 2009 p. 327-328). The basic reliability issue concerns a measurement method’s ability to produce the same research result over and over again. The traditional definitions stem from experimental-psychological traditions, where researcher and method are seen as separated from each other. However, as it is impossible to differentiate between researcher and method, Stenbacka (2001) argues that it is obvious that reliability has no relevance in qualitative research. The reasoning behind this argument lies within the notion of “measurement method” which is irrelevant in qualitative research. Stenbacka (2001) argues that repetitive correctness has value only in research settings dominated by the deductive demand for unconditional intersubjectivity. Further, according to Shenton (2004), one should note that the changing nature of the phenomena scrutinized by qualitative researchers makes such attempts problematic to perform. The notion behind this argument is that descriptions of conducted research are static and frozen in the “ethnographic present” (Shenton, 2004, p. 71). As such, as this study is not attempting to be generalizable but rather conducted with the purpose of exploring the area within certain contexts, a lower degree of reliability (as defined by positivists) is not seen as a disadvantage in relation to the intended contribution of the study. Thus, given the poor applicability of positivists’ concepts of validity and reliability, this study follows Guba’s (1981) concepts of credibility and conformability in order to assess and ensure the quality and the trustworthiness of the research conducted. These concepts have specifically been developed for qualitative studies and have been widely acknowledged for their appropriateness (Shenton, 2004).

In terms of the credibility of the conducted research, various precautionary measures have been taken to ensure that the findings are congruent with the interviewees’ interpretations of
their social reality. All interviewees have been given the opportunity to take part of the findings and have subsequently given their consent concerning the parts where they have been cited or referred to. Furthermore, in order to develop a comprehensive view of the context in which budgets are being used, our findings are derived from scrutinizing both diverging and congruent views shared by interviewees from different organizational levels. Additionally, by using multiple sources of information in our study, we have been able to develop converging lines of inquiry through triangulation (Shenton, 2004). In connection to the interviews, respondents were asked to share available documents concerning the subject at hand in order to facilitate the understanding of the views shared in relation to the actual practices performed. Several documents were also analyzed in order to assess each interviewee’s participation in the budget process. Yet again, as the findings reflect the shared perceptions of the interviewees, one should not emphasize them as reflections of an objective reality concerning the represented companies.

Confirmability relates to our objectivity in relation to the conducted research. To ensure confirmability during our research process we have constantly questioned whether our findings represent the experiences and ideas of the interviewees or the characteristics and preferences of our own, what Shenton (2004) refer to as “investigator bias”. However, the most decisive measure in promoting confirmability is again attributed to the interviewees’ given consent regarding the parts where they have been cited or referred to. Consequently, as such consent has been given, our belief is that the confirmability of the conducted research is satisfactory.

3.3 Case study companies
As a prerequisite, the companies chosen for this study have one common denominator. The companies that are interesting for this study are those that use budgets actively, regardless if they have found ways to cope with the potential problems or not. Consequently, all of the case study companies actively use budgets for various management control purposes. The rationale behind this requirement is built on the notion that actively using the budget as a MCS implies that the companies may be able to relate to the challenges that the budget has been argued to entail. Thus, we believe that such companies can provide more valuable insights in relation to those companies that use the budgets more ceremoniously for any other non-MCS purposes.
The true identity of the four companies chosen for this study is not revealed due to confidentiality agreements. Instead we refer to them by the specific industry in which they operate. The first company is one of the leading publicly funded health- and social care companies in Sweden, and will hereafter be referred to as the “Healthcare company”. The second company constitutes the retail division of one of the largest Nordic banks, hereafter referred to as the “Retail Bank”. The third company is a world leading company within its core segments of products for people with disabilities, hereafter referred to as the “Industrial company”. The fourth company is one of the largest independent reseller of mobile telephony in Sweden, henceforth referred to as the “Mobile company”.

Apart from actively using the budget for various management control purposes, the case study companies are highly dissimilar. Most importantly, they each represent distinctly different goods and service industries, which imply that they likely are facing different challenges and opportunities while using budgets. For instance, while the Industrial company’s income for a certain month is largely related to activities performed during the same month, the Retail Bank’s corresponding income is largely related to activities performed during prior months or even years (e.g. approved loans do not generate interest until months later). Another example of this is the differences in company functions; while the organizational functions of the Mobile company reflects their business as a reseller of other companies products and services, the organizational structure of the Industrial company includes functions as R&D and production.

Moreover, relatively to each other, the four companies operate in environments that are differentiated on a stable/uncertain scale. While the Healthcare company operates in a rather stable environment characterized by long sales cycles and procurement contracts, the Mobile company operates in a fast-moving-consumer-goods (FMCG) industry characterized by high competition and rapid shifts in demand, resulting in a rather uncertain environment. Relatively to these two companies, the Industrial company and the Retail Bank can be positioned somewhere in between in terms of environmental stability. Additionally, the case study companies vary in size, ranging from a few hundred employees to several thousands, with revenues of one billion SEK to tens of billions SEK. As such, the number of organizational levels and people involved in the budget process differs substantially between the companies. Our belief is that studying companies that represent different industries and sizes will reveal that how one perceives the criticism and how one deals with it can vary.
Again, this study is not seeking to make generalizations but rather to capture a diversity in how companies approach the challenges that the budget has been argued to entail.

3.4 Conducted interviews

In order to fulfill the aim and purpose of this study, we have chosen to conduct interviews on two organizational levels at each company mentioned above, namely at the corporate level and the operational level. All the representatives on the corporate level have similar responsibility for the budget process in each respective organization, ranging from preparing it, monitoring the outcomes, to evaluating its execution. The representatives on the operational level are in turn various types of operational managers that, although they are situated in various organizational functions, have budgetary responsibilities regarding a material part of their respective company. The occupational title for the representatives chosen for the interviews varies between the companies as they operate in different industries and use different terminologies\(^1\).

In total this study covers the accounts of nine interviewees of which three represents the Industrial company and two represents the Healthcare company, the Retail Bank and the Mobile company respectively. While all corporate representatives will be referred to as the “corporate representative”, the operational representatives will hereafter be referred to as “R&D manager” and “production manager” for the Industrial company, “business unit manager” for the Healthcare company, “branch manager” for the Retail Bank, and “sales manager” for the Mobile company. The interviews were conducted on-site at each company and lasted for approximately 60 minutes each. In accordance with Walsham’s (2006) proposition, the interviews were recorded and transcribed in order to accurately reiterate stated opinions with quotations when presenting the findings.

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\(^1\) The titles range from Controller, Controller Director, Finance Director and Project Manager Finance at the corporate level and Branch Manager, Director Group Product, Director Production Unit, Business unit manager and Customer manager at the operational level.
4. Findings – the perceived validity of the critique

What follows is an ongoing analysis of the case study companies’ representatives’ perception of the critique, where the accounts of the interviewees are being pinpointed within the MCS-package.

4.1 Criticism 1

Budgeting consumes a lot of managerial time, which makes it a costly process, and the benefits may not be worth the costs.

Concerning the first critique against the budget, one should recall that it relates to the benefits associated with the budget in relation to the amount of time spent on the budget process, the resources consumed by it as well as the opportunity cost of performing those activities. As such, it also implicitly relates to the accumulated costs and benefits related to the other three critiques. Thus, the following paragraphs highlight the perceived overall costs and benefits of the budgets employed by the case study companies.

In terms of the time spent on the budget process it is apparent that the four different companies differ significantly. On the corporate level, the Mobile company spends 1 month on the budget process, the Healthcare company and the Industrial company 4-5 months, and the Retail Bank spends as much as 6 months. On the operational level, the Mobile company spends 10 days, the Healthcare company 15 days, the Industrial company 40 days, while the Retail Bank only spends a few days. The significant differences in time spent on the budget process can be attributed, based on the accounts of the interviewees, to; the differences between the companies in terms of their budgets’ level of detailness, their IT-systems, their need of revising budget preconditions during the process, the number of organizational levels or units involved, and most importantly the purpose employed for having a budget. The Retail Bank described how poor IT-systems as well as recurring revisions of budget preconditions often prolong the process on the corporate level, this year from an expected and agreed upon timeframe of 4 months up to 6 months. The Retail Bank’s corporate representative explained that the accuracy of their budget is highly dependent on the latest repo rate forecast from the national central bank as well as other macro-economic variables such as developments in the housing market, implying that revisions of budget preconditions take place on a frequent basis throughout the budget process. The Healthcare company and the Industrial company on the other hand attributed their budget process’ extensive timeframe to the detailness of their budget as well as the large number of organizational units involved, or as the Healthcare company’s corporate representative explained it:
“It’s natural that we produce more detailed budgets than most other companies since it’s such a long period of time between our sales cycles. […] We wouldn’t do it if we were in a more fast-moving industry. But due to the procurement processes and our proficiency in making estimations, our budget risk is as low as a couple of percent.”

The Mobile company on the other hand do not spend as much time on the budget process, arguing on the corporate level that further efforts to increase the accuracy or detailness of the budget would not be beneficial in relation to their employed budget purpose. But, despite these differences between the companies and in contrast to the critique, all interviewees declared the budget as a value-adding activity. Yet, while a majority of the representatives on the corporate level did not consider budgeting as an activity that is conducted at the expense of other value-adding activities, a few representatives on the operational level argued that although budgeting is value-adding, the budget sometimes feels overwhelming and too intensive, or as the production manager at the Industrial company explained it:

“Once you’re in the process there’s not much else you can do. Other valuable activities suffer from it. You have to give up your business development during a month, more or less. I like to develop my business through continuous incremental efforts and working with takt time. But from my production perspective the budget process is more like batching, and that’s inefficient.”

Regarding the benefits associated with the budget, the representatives emphasized different purposes for budgeting when describing its most value-adding features. The Healthcare company representatives considered the control and monitoring feature of the budget to be the most valuable as they use budgets for performance evaluation purposes. They argued that since all of their operations are performed under procurement contracts that often stretches for five years, they have to control and monitor that they are performing in line with the calculation on which their offer was based on in the procurement process, or as their corporate representative explained it:

“From an economic standpoint, it is critical that we make sure that we do what we said that we would do. We have to distribute accountability on the operational level […] and track that we are performing in line with our offer, otherwise we will be in trouble for five years. There are no add-on services that we can sell to make up for it.”
The representatives of the Retail Bank on the other hand primarily emphasized the budget as a strategic tool whose main purpose is to spread the corporate strategy and management’s expectations throughout the organization as well as to the stock market. They described it as a top-down process in which management communicates focus areas as well as growth and cost targets. Yet, both representatives argued that how individual branches should be able to conduct their business in alignment with the communicated strategy is more of a tactical issue for the branches to develop on their own, with respect to varying local demands and their local expertise. While strategic formation was perceived as the main purpose of the budget, the representatives also described how the budget is used for performance evaluation purposes. Budgeted financial targets are used in the regular performance evaluation alongside other non-budgeted financial (e.g. trend analysis) and non-financial metrics (e.g. customer satisfaction). The representatives described that the moderate performance evaluation role (in relation to the strategic role) of the budget could be attributed to the lagging nature of their daily business, implying that financial evaluation of a regular business day or month is complicated due to the fact that business generated income is not reflected financially until months later (e.g. approved loans do not generate any interests until month(s) later). The corporate representative explained that although a highly respected management consultancy recently has examined and challenged the overall management control of the Retail bank, the budget and its two differently emphasized purposes came out as irreplaceable and indispensable.

The Industrial company considered performance evaluation, operational planning and strategic formation as equally important and value-adding purposes of the budget. They argued that the budget not only convey the direction set for the company but that it also highlight the activities that they need to pursue and resources needed in order to reach their objectives. Thus, the budget facilitates both strategic formation as well as operational planning. Yet, as it also contains the expectations management hold on the company, the budget also constitutes the primary tool and benchmark for performance evaluation. However, the corporate representative argued that these three intertwined purposes of the budget are not equally emphasized at all levels of the organization. While much emphasis is put on strategic formation and performance evaluation at the management level, the operational levels put considerable more emphasis on the operational planning purpose of the budget, or as the R&D manager described it:
“Following up and tracking our performance is something that has been kept within [the finance department]. In my view, the budget is rather a tool for planning […] what resources do I need to deliver on my roadmap and how should we adapt our department to fulfill those needs.”

In contrast, the Mobile company considered the budget process as such to be the most valuable feature. According to them, the budget is merely a snapshot that is unable to accurately foresee the future. Instead, it is the actual budget process that creates value, as this process forces the companies to thoroughly consider what they need to do to reach their objectives. To this end they argued that the budget becomes more of a strategic tool whose process provides organizational participants with a thorough understanding of the company, which subsequently facilitates a constructive questioning of the direction of the company. The Mobile company’s corporate representative described the budget analogously as a tool that counteracts bulimia (i.e. short-term orientation):

“You can’t just eat and throw up. To gain weight as a company, we need to know what is going on in our organization […] you have to devote time to reflection, and the budget process forces us to do that. My wholehearted conviction is that the budget process makes us gain weight.”

Furthermore, consistent with each other, all four companies argued that although the budget process takes up a lot of time, without a budget they would still perform many of the activities that inform the budget process. Their rationale behind this is that many of those activities are essential to running a business and they also inform or are being informed by other systems within their MCS-package, such as strategy plans (long range planning), BSC (hybrid measurement systems), and incentives schemes (reward and compensation). Yet, the overall costs associated with having a budget (i.e. besides strict time spent estimations) are not being tracked according to the case companies’ representatives, consequently making value-adding calculations problematic. All representatives argued that overall costs and value estimations are impossible to accurately estimate in absolute figures due to the many different and often highly subjective and interrelated parameters to account for. Again, this issue appeared as even more problematic concerning activities that besides serving the budget also inform other MCSs.

Taken together and in line with Libby and Lindsay’s (2010) results and in contrast to the critique, the accounts of the representatives suggest that the case study companies’ budgets
represents an activity whose associated overall benefits outweigh its costs. Yet, the shared perceptions of the representatives indicated that the critique is not totally irrelevant as the budget process in some cases takes up a significant amount of time and is perceived as cumbersome.

4.2 Criticism 2

*Budgets inhibit firms from adapting to changes in a timely manner due to their fixed nature.*

Concerning the second criticism against the budget one should recall that it focus on three aspects of budget practice. Firstly, it focuses on the fixed nature of the budget, assuming that once budgets are in place they are not being altered during the year. Secondly, it assumes a binding characteristic of the budget, meaning that organizational participants perceive the budget as a plan which one should not deviate from or abandon. And lastly, it relates to the uncertainty associated with the assumptions underlying the budget.

In line with the critique, all four companies’ representatives agreed on the fixed nature of the budget, arguing that once the overall budget has been compiled and set, it is not modified in any way during the remainder of the year, unless some extraordinary events or changes take place. Or as the Healthcare company’s corporate representative vividly explained it:

“*The budget is never changed during the current year. It shall rain cats and dogs in hell before we do. That’s the case, period.*”

Only the Industrial company could recall a situation or event that had resulted in such budget revisions. As a result of a major competitor’s temporary but long-lasting shutdown of operations following a FDA consent decree¹, the Industrial company altered their budget as a material increase in sales were expected. Yet, their corporate representative argued that events or changes affecting the validness of budget assumptions on such a scale are very uncommon. The rationale for not making budget revisions however did not with, the exception of the Healthcare company, lie within an exceptionally high accuracy in budget targets or its underlying assumptions. Rather on the contrary, the Mobile company’s corporate representative explained how budget assumptions typically gets outdated as early as three months into the year as a result of their fast changing industry. Although such poor accuracy was not the case for the Retail Bank and the Industrial company, their corporate

¹ Authority decision by the Food and Drug Administration (FDA) after inspectional observations of corporate facilities.
representatives argued in line with the Mobile company that the rationale for having the budget fixed during the year was attributed to the long-term benchmarking opportunity of the budget. To this point, the budget is the main reference point in terms of how the agreed upon activities in the company are carried out in practice. As such, they argued that the budgets constitute a concrete reflection of the long-term initiatives that the management has decided to pursue during the year to enable future strategic positions, i.e. a roadmap intended to ensure the achievement of long-term strategic objectives.

Despite the fixed nature of the budget, corporate representatives of all the companies did not consider the budget as preventing them from being flexible in times of changes, thus opposing the alleged binding characteristic of the budget. If any changes are needed to be made in order to cope with new preconditions in their surroundings, all corporate representatives declared that they would not hesitate to act, even though their actions would preclude the fulfillment of the overall budget targets. Yet, since budgets generally are not revised under such circumstances, the representatives argued that the budget loses a great deal of its performance evaluation and operational planning capabilities. Instead, to be able to manage any unforeseen changes and to evaluate performance, the companies supplement the budget with other cybernetic controls in the form of various forecasts. While the Retail Bank mainly use forecasts on a corporate level to inform management and the board about the company’s anticipated direction, the Industrial company, the Healthcare company and the Mobile company rely on forecasts at both corporate and operational levels according to their corporate representatives. The production manager of the Industrial company explained how forecasts rather than budgets sets the pace in production:

“We plan our operations financially with the budget. But we use forecast to plan for our short-term capacity. I mean... the rough capacity comes from the budget [...] but we have to adapt to reality and the last known information. So we enter the forecast information into the planning system, not what the budget says.”

In this regard, he argued that although the accuracy in their budget assumptions are rather high on a monthly or quarterly basis, the forecasts are considered as a better tool for capturing and adapting to short-term fluctuation in demand.

The Mobile company’s corporate representative described how the changing environment of FMCG’s makes them move away from the budget at an operational level as early as three months into the year and in its place employ quarterly rolling forecasts as the main cybernetic
system for control. The sales manager elaborated on this and explained that although the objective has been to produce a budget accuracy that would allow the budget to survive twelve months, she had not yet experienced a single year when the forecasts had been unnecessary. To this point, both representatives argued that if they would conduct their operations on the basis of the accuracy of the budget, they would probably end up even further away from the established overall budget targets (e.g. net sales and EBITDA). Rolling forecasts are thus being used to find new ways to reach the initial budget targets by shifting attention towards where it is needed with regards to changing prerequisites. As such, when forecasts are put into use, the corporate representative of both the Healthcare company, the Industrial company and the Mobile company argued that discussions regarding ongoing operations shifts from revolving around the budget to the forecasts instead.

The Retail Bank on the other hand do not use forecast at an operational level and neither do they – as described above – solely evaluate performance based on the budget. Instead, the corporate representative and the branch manager argued that they primarily evaluate performance based on trend analysis and a BSC including both quantitative and qualitative key performance indicators (KPI) such as budgeted cost/income ratios, new customers and customer satisfaction. As a consequence, both representatives argue that the budget is not perceived as a binding commitment in terms of pursuing certain agreed upon activities. They argued that if the trend analysis or the non-budgeted KPIs of the BSC indicate that changes in the environment are taking place, they would immediately direct their focus towards adaptation, irrespective of the original plan underlying the budget.

In contrast, the Healthcare company produce monthly forecasts for all its units to facilitate performance evaluation and adaptation to changes at both corporate as well as operational levels. Yet, their business unit manager did not acknowledge the need for forecasts at an operational level, arguing that budget based evaluation transcends the more simplified forecast based evaluation, or as she expressed it:

“The forecast is generally something that we only send to [the corporate level]. I have always based my reflections on the budget. I mean... since I’ve sat down and really tried to figure out how next year will be like, why shouldn’t I make use of that later when I try to understand the deviations?”

When elaborating on her reasoning, she explained much like the corporate representative (under heading 4.1) that firstly; the nature of their business is both fixed and binding, meaning
that there is no add-on services that they can sell to make up for a problematic month, and secondly; that the budget risk (i.e. expected deviation from budget targets) is as low as a couple of percent, implying that the assumptions underlying the budget are perceived as accurate. Thus, she argued that the mere use of forecasts cannot ensure flexibility towards changes as the very nature of their business is, as a result of the procurement contracts, fixed and binding. To this point, she argued that forecasts only offer an opportunity to track unexpected developments on a micro level such as tracking the development of rising costs or a sudden drop in the occupancy rate, of which only a part of such unexpected developments falls within their discretion due to the binding procurement contracts.

Accounts of the interviewees supporting the binding characteristic of the budget were not limited to the business unit manager of the Healthcare company. Although the production manager of the Industrial company made clear that he did not perceive the budget as an inhibitor of flexibility at the time being, he exemplified the binding characteristic of previous budget practices by explaining how non-budgeted investments have been difficult to get approved, and that decisions reflected in the budget have been difficult to revoke. Although the perceived binding characteristic of previous – yet recent – budget practices were not shared by the R&D manager or the corporate representative, secondary data in terms of internal investment process forms and guidance documents confirmed the approval requirement, or at least encouragement, of having potential investments budgeted upon request³. As such, while it is difficult to estimate the degree of the binding characteristic of the budget, the accounts of the production manager and the internal documents at least indicated the existence of such budget characteristics on an operational level.

Taken together, the accounts of the case companies’ representatives shared the critics view regarding the fixed nature of the budget. In their view, the overall budget is meant to be fixed since one of the advantages related to the control and monitoring feature of the budget is that it offers a long-term benchmarking opportunity for their operations. However, while the alleged binding characteristic of the budget were not shared by the corporate representatives, the operational representatives of the Healthcare company and the Industrial company as well as internal documents of the latter demonstrated the existence of diverging views. Further, even though the perceived accuracy of the assumptions underlying the budget varied between

³ Request form contains a check-box for whether investment is budgeted for. Guidance document states that requested investments are presumed to be budgeted for, implying that non-budgeted investments are more difficult to get approved.
the companies, they did not perceive the budget as inhibiting them from adapting to changes. Yet, the ability of adapting to changes was largely attributed to the various forms of forecasts and non-budgeted performance evaluation metrics (e.g. BSC) employed by the companies. In sum, although the suppositions underlying the critique were evident to some degree in the case study companies, their representatives did not perceive the budget as inhibiting them from adapting to changes, not least as they, in line with Libby and Lindsay’s (2010) results, utilized on other MCSs aside from the budget when necessary.

4.3 Criticism 3

The budget process is disconnected with strategy, thereby putting it out of kilter with the competitive demands facing firms.

Concerning the third critique against the budget, one should yet again recall that it concerns more than one aspect. Firstly; this critique relates to whether the budget is derived separately from the strategic planning process, secondly; whether achievement of budget targets occurs at the expense of the strategy, and lastly; whether the budget is more focused on cost reduction than on value creation.

Regarding the first aspect, none of the representatives at the corporate level indicated that the budget process was disconnected with their strategy. Rather on the contrary, they all considered their budget as a reflection of their respective strategy. In fact, all the companies described in concert how the budgeting process was initiated by the strategic planning (i.e. planning controls). In this way, they all argued that the activities that were explicitly and implicitly encouraged by the budget was actually rather an extraction from the more long-range strategic planning. Yet, the only company that diverged from the others was the Mobile company where the corporate representative described that they had a feedback-loop between the budget and the strategy. As such, she argued that the budget not only was informed by the strategy but that it also informs the strategy, based on how the strategy incorporated in the previous budget had played out during the last time period. The tight interplay between the budget and the strategy was in their case explained by their need to constantly revise the strategy as a result of the ever-changing business environment of FMCG’s.

On the operational level, all the representatives except the Healthcare company’s business unit manager expressed similar views as the corporate representatives, arguing that their budgets are closely connected to their respective strategies. The R&D manager of the Industrial company explained how even though their business plan does not contain a budget
by itself, they clearly harmonize in the sense that the budget process to a large extent is informed by the preceding business planning process. Similarly, the Retail Bank’s branch manager explained how their strategic work precedes the budget process and how the budget constitutes an indispensable tool for disseminating the strategy throughout the organization. Furthermore, he described how the connection between the two has been facilitated over time due to the organization’s continuity in strategic matters:

“Historically we have had many frequent strategy changes, especially the first years when I started here two decades ago. However, the strategy has remained more or less unchanged for the last few years. This continuity has made it a lot easier to find the connection between strategy and budget and it will be even better going forward if we carry on like this.”

The Healthcare company’s business unit manager, on the other hand, expressed her uncertainties concerning the company’s overall strategy as she felt that this was not something that was shared among managers at the operational level. Therefore, she could not state for certain whether or not the budget had any close connections to their strategy.

Regarding the second aspect, the companies witnessed how the budget, although connected to strategy, can be insufficient in securing that the daily operations are conducted in line with strategy, leading to a short-term orientation or sub-optimization. The Retail Bank’s representatives described how this had been an immense issue during previous years when different divisions and employees were reluctant to relocate some of their own clients to divisions that ultimately would have been better suited for the clients’ needs. A typical example of this is an exceptionally fast growing company that quickly grows out of the local office's costume in terms of needing more advanced solutions, or a private client that is served by private advisory (0-2 million SEK) whose fortune indicates that he or she in fact would receive better and more frequent service in the private banking segment (5+ million SEK). The motive behind this behavior was a wish to avoid sacrificing any of their own remunerations and to strengthen their chances of reaching their respective budget targets. Needless to say, the representatives argued that the bank as a whole suffered substantially due to this short-term orientated mindset that permeated the organization.

To this point, a common explanation among the companies of why the budget alone cannot prevent sub-optimization issues lie within the financial oriented focus of the budget and its lack of non-financial measures. In the Retail Bank’s case, the previous existence of sub-
optimization could also be attributed to another MSC, the pervading culture, which indirectly reinforced sub-optimizing activities. In order to make sure that operations were conducted in line with the strategy, the companies relied on various methods that they have developed over time. The Healthcare company relied on various monitoring controls (policies and procedures) and together with the Retail Bank, they utilized on KPIs (hybrid measurement system) that included both financial and non-financial measures. The Retail Bank has also made great progress towards eliminating these issues through deliberate attempts to alter the corporate culture and its underlying values from the ground up. According to both representatives, the new approach emphasizes the importance of getting the customer to feel that they are part of the bank regardless of where they are, and to always strive towards allocating clients where they will receive the best service according to their needs and conditions. To ensure a unified behavior, the bank has also adopted financial measurement systems together with various recognition programs that will keep track of employees and divisions that initiate viable client transfers, something that the corporate representative argued has made a huge difference in relation to avoiding an opportunistic and short-term oriented mindset within the organization. Furthermore, the Industrial company’s representatives explained that they monitor their operations closely and rely on monthly reviews (policies and procedures) where corporate and operational representatives meet and discuss the outcome of the previous time period and how the results can be explained through the particular activities conducted in each business unit. The corporate representative argued that these actions enable top management to identify if any sub-optimizing behavior would occur somewhere in the organization. The Mobile company, on the other hand, was less formal and relied mostly on informal meetings when deemed necessary.

Lastly, regarding the third aspect, the companies’ representatives shared a similar view regarding whether they perceived the budget as being more focused on cost reduction than on value creation. In contrast to the critique, all representatives perceived the budget as being somewhat equally focused on cost reduction and value creation. For instance, although the budget primarily serves a strategic formation purpose within the Retail Bank, it also – as described above – serves a performance evaluation purpose, implying both a cost- and value focus. In this regard, the representatives argued that the past years’ stated flat cost objective has further strengthened the cost reduction focus of the performance evaluation feature of the budget although the sales budget’s strategy formation purpose remains predominant with its value creation focus.
Taken together and in line with Libby and Lindsay’s (2010) results, the critique was not found valid by the companies. In contrast, they emphasized a strong connection between the budget process and strategy. However, although the connection was perceived as strong, the budget as such was described as insufficient to ensure strategically aligned behaviors throughout the organizations. To this point, the companies had to rely on other MCSs to mitigate these challenges.

4.4 Criticism 4

The use of the budget as a fixed performance contract leads to unreliable performance evaluation and promotes budget gaming.

The fourth critique relates to the assertion of budgets as a means that indirectly encourage various forms of dysfunctional behavior within organizations. This critique, in contrast to the previous ones, received widespread support by the companies. In accordance with the stipulation behind the critique, the Healthcare company used budgets to determine compensation and the performance contracts were to a great extent fixed during the year. For the Mobile company, the duration of the fixed performance contracts varied between different levels of the organization, from yearly contracts for management to quarterly or monthly contracts for sales personnel as a result of the uncertain environment of FMCG’s in which they operate. On the contrary, the Industrial company and the Retail Bank did not use budgets to determine any monetary compensation. However, the production manager at the Industrial company expressed how the budget, even though it was not connected to any monetary compensation, constituted a control mechanism that was used to determine more informal non-monetary incentives within the organization:

“The budget is what governs us. How do you get a medal at this company? You reach your budgetary objectives, [i.e.] follow your sales budget and make sure that your expenses are held within the established limits.”

Furthermore, in line with the critique, all companies except the Retail Bank witnessed how the budget process to a varying degree was characterized by negotiations and gaming, where subordinates safeguarded their interest by either estimateing higher (often costs) or lower numbers (often revenue) to assume a better position in relation to superiors and their own incentives. Managers, in turn, displayed the same tactic against their subordinates, as they often had them to revise their budgets to erase the “pillows” that they knew were included in the budgets, or as two of the representatives expressed it:
“It’s a game and everyone knows it.” (Industrial company’s corporate representative)

“It happens all the time, it’s a game, that’s how it works. Constant negotiations. Both with our [department managers] as well as with our [board]. It takes one to know one.” (Mobile company’s corporate representative)

The Mobile company’s sales manager agreed with the aforerementioned quotation, arguing that she often tries to elevate costs and keep down revenue expectations in the budget process when negotiating with her superiors. However, she attributed this behavior to top management’s approach of assigning unreasonable budgetary demands to the operational managers below. She further argued that her attempts of obtaining a reasonable budget, that are based on a more probable scenario rather than a best case scenario, almost consistently gets turned down. This, she argued, results in a lack of ownership in the budget which leads to motivational problems among those who are responsible for it.

The Healthcare company's business unit manager described how she often tries to create budget pillows in terms of presenting higher costs in the negotiation process than what actually would be required to conduct her operations. She justified the additional costs by telling her superiors that it eventually would lead to a greater patient satisfaction in the long run. According to her, this reasoning would more often than not result in a positive response from her superiors. The intention behind this behavior was, according to her, to reserve some money in order to create a buffer in case some unexpected event would occur in a later stage in her business unit. Even though she knew that this way of acting was deemed unappropriate and not acceptable from top management, she claimed that this behavior occurred throughout the organization anyways.

Yet, the dysfunctional behavior was not only limited to the gaming within the budget process, but also to the achievement of the budget targets, again in accordance with the critique. This behavior was most evident in the Mobile company where the corporate representative perceived it as a constant struggle, dealing with several subordinates who acted opportunistically:

“Our key account managers have incentives based on their quarterly budgets which have led to huge problems. They work their ass off the first two months in the quarter but if they feel as if they will not reach their quarterly targets they stop working the last two weeks and try to push the deals into the next quarter. […] It’s difficult for me
The sales manager agreed with the corporate representative regarding the opportunistic behavior of subordinates. She further explained how management has tried to counteract this type of behavior in other divisions, such as their call centers, through the inclusion of various policies and procedures. More specifically, this involved the establishment of a quality control department that did spot checks on random phone calls to ensure the quality of the sales calls, and adjustments of incentives by introducing marginal utility of each sale to counter sales agents from pulling or pushing deals over certain time periods for personal gain. Even though these steps have been important in the division's quest of eliminating various opportunistic behavior, some problems still remain to a wide extent according to the sales manager. One of these behaviors occurs when sales agents act wrongfully in different ways towards the client through the sales process in order to obtain higher sales numbers. This issue was evident as more than every tenth sale got withdrawn in retrospect, often due to various reasons of misconduct from the sales agent's side.

The Industrial company also showed signs of dysfunctional behavior related to the accomplishment of budget targets as well. The production manager described the issue in the following manner:

“We can have a very shortsighted mindset when it comes to the budget. If the numbers don't look good in Q1, what do we do? We start vomiting [products] so that we can invoice as many as possible in order to improve the figures for that particular quarter. It is like wetting your pants, it might be nice and warm for a moment but it gets damn cold and sticky in the beginning of next month, because then there is no more [products] in the backlog to chew through. Then we have created a monthly oscillation all by ourselves which makes our whole operation inefficient.”

However, the Industrial company’s corporate representative argued that even if issues like this probably exist in the organization, it does not constitute any major problems for the company at the moment from an holistic point of view. He also claimed that corporate level personnel would be able to detect such behavior if it would become more prevalent in the group.
In contrast, the Retail Bank had not noticed to any noteworthy extent such behavior within their organization, although they were aware of the risk for it. This view was shared by both the corporate representative as well as the branch manager. Their explanations for why it was not apparent included several different aspects. First of all, they argued that they have no monetary incentives linked to the budget. Instead they have compensation programmes based on the relative performance towards the previous year and their competitors. Secondly, they argue that the minimal scope of negotiation and the top-down nature of the budget process counteract such behavior. Additionally, any other dysfunctional behavior is counteracted by the establishment of several overlapping and comprehensive objectives that each employee on different levels must take into account in their daily work. This implies that if an employee would try to improve an area that they are evaluated on, such as the financial figures for instance, they must do this with caution so that this area is not improved at the expense of other equally important areas. Lastly, the representatives also attributed the minimal dysfunctional behavior to the ever improving corporate culture that to a large extent has unified the company, but also to the characteristics of their particular industry. As a particular branch’s operations during a month have little impact on the whole and are lagging timewise, the company is not keen on setting tough monthly requirements. The branch manager described how counterproductive this approach would have been if seen from a customer satisfaction perspective:

“For us it's impossible to let a customer postpone an apartment purchase just because we want to reach our budget target a particular month.”

The Healthcare company’s corporate representative argued that the absence of any extensive dysfunctional behavior could be explained by the design of their incentive schemes, where the achievement of budget targets only represents one out of several criterias of their BSC (hybrid measurement system) by which incentives are based on. As such, the corporate representative argued that if subordinates would act opportunistically to reach budget targets, the negative side-effects would be registered by other criterias in the subsequent evaluation. These criterias cover a range of measures such as occupancy and various types of quality indexes such as customer- and employee satisfaction. Another important part to counter such behavior was attributed to the company's standardized work, i.e. their policies and procedures that enable the top management to swiftly detect any abnormal occurrences.
On the whole, the findings from the case companies are very much in line with the critique and Libby & Lindsay’s (2010) results. The use of the budget as a fixed performance contract can lead to unreliable performance evaluation and promote budget gaming as well as other dysfunctional behavior. Yet, although the case companies agreed with the critique, their way and ability of dealing with it varied significantly as they utilized on other MCSs differently.
5. Discussion – contingencies affecting the relevance of the critique

This case study has captured how four companies within different industries that use budgets perceive and handle the critique that has been raised against it, and the potential impact of the external and internal environment in regards to these perception. In their opinion, and in line with a recent quantitative survey study (Libby & Lindsay, 2010), only the fourth critique against the budget – that the use of the budget as a fixed performance contract leads to unreliable performance evaluation and promotes budget gaming – was perceived as valid. The other three critiques were either found as totally alien or as partly justified but not a concern to them. Yet, the very heart of this qualitative study is that it, in contrast to previous quantitative studies, provides indicative evidence for the assertion that the relevance of the critique that has been raised against the budget is indeed contextually contingent, both with regards to the external and internal environment of a company, where the design of a company’s MCS-package constitutes a significant part of the latter.

Thus, the insights provided by the case study companies indicate that how one perceive each critique can be explained by how one’s company’s various MCSs are affecting each other and in turn how a the company’s MSC-package and employed budget purpose(s) are aligned with the external and internal environment of a company.

Regarding the critique that the budget inhibits firms from adapting to changes, our findings indicate that the relevance of the critique can be related to whether company representatives perceive all the suppositions underlying the critique (i.e. fixed nature, binding characteristic and uncertain assumptions) as simultaneously prevailing or not. Even though various suppositions were seen as valid within different companies, there were not a single representative that perceived all three suppositions as prevailing in their respective company and neither did they perceive the overall critique as justified. To elaborate; in the Healthcare company’s case, the interviewees agreed with the fixed nature and the binding characteristic of the budget, but not with a high uncertainty related to budget assumptions. It was evident that the external environment of the company represented an explanatory factor regarding the validness of the suppositions. In terms of the fixed nature and binding characteristic of the budget, the procurement process characterizing their business was fixed and binding in its very nature, thus forcing the company to have a fixed and binding approach towards the budget as they could not deviate from the established contracted agreements that constitute the basis for their operations. Regarding the low uncertainty related to budget assumptions, the internal and the external environment constitute explanatory factors. The Healthcare
company has over time developed sophisticated internal capabilities that, together with a rather stable external environment, enable an accurate assessment of budget assumptions. The absence of the uncertain assumptions might thus be a possible reason for why the company representatives perceive the overall critique as unjustified. If, *ceteris paribus*, the assumptions underlying the budget had been uncertain, one could intuitively assume that it together with the binding characteristics and the fixed nature of the budget would have constituted an obstacle for adapting to changes.

In contrast to the Healthcare company, the Mobile company’s representatives perceived the assumptions underlying the budget as uncertain, attributing it to the uncertain environment of FMCGs in which they operate, characterized by a high competition and rapid shifts in demand. However, even though they agreed on the fixed nature of the budget, they disagreed with the binding characteristic of the budget as well as the overall critique. While they attributed the fixed nature of the budget to the long-term benchmarking opportunities that it offers, they recognized that a binding approach towards the budget would inhibit them from making the adaptations necessary to reach their long-term strategic objectives. The case of the Mobile company as well as the Healthcare company indicates that although two of the three suppositions were perceived as valid, the absence of the third resulted in that the overall critique was perceived as unjustified.

Furthermore, although the budgets were not perceived by the representatives as an inhibitor of flexibility, it neither was perceived as a facilitator of such a capability. In this respect, our findings indicate the decisive role of other MCSs. To enable and facilitate flexibility in order to foresee changes in the environment and adapt accordingly, the case study companies utilized on other cybernetic controls included in their respective MCS-package in the form of various forecasts and non-budgeted performance evaluation metrics (e.g. BSCs).

Regarding the critique that the budget is disconnected to strategy, our findings again indicate decisive role of internal and external contextual variables in determining the relevance of the critique. In terms of the alleged disconnection between budget and strategy, all the representatives perceived it as unjustified, arguing that a deliberate working procedure sought to incorporate the preceding long range planning of the MCS-package within the budget process over time have resulted in internal capabilities that ensure a strategically aligned budget. Intuitively, one could expect the connection between the budget and the strategy to be more obvious within a company with a high continuity regarding their strategic orientation,
such as the Retail Bank. However, our findings indicate that the connection can be equally obvious for a company with more frequent strategic alterations as a result of their fast changing environment, such as the Mobile company, perhaps as their connection between budget and strategy is mutually interactive as a result of a feedback-loop.

Even though the representatives perceived the budget as connected to strategy, they argued that the connection is insufficient in securing that daily operations are conducted in line with strategy. Yet again, our results indicate that it is the interplay between different MCSs that either promotes or prevents the alleged sub-optimizing behavior. The case of the Retail Bank highlights how the budget together with an insalubrious culture and poorly designed incentive schemes previously created a sub-optimizing behavior throughout the organization. However, as the culture and the design of the incentive schemes have been improved in recent years simultaneously as non-financial measures have been introduced, the sub-optimizing behavior has seized to exist. Similarly, the other case study companies also relied on other MCSs such as hybrid measurement systems (e.g. KPIs, BSC), and policies and procedures (e.g. monitoring controls, monthly reviews) to ensure strategically aligned behaviors throughout their organizations. Thus, although the budget does not prevent sub-optimizing behavior, our findings indicate in contrast to the critique that the budget alone should not be seen as the root-cause of the issue. Rather, the issue seems to be contextually contingent in terms of how different MCSs are designed and how they interact.

Furthermore, although the critique that the budget, as a fixed performance contract, can lead to budget gaming and dysfunctional behavior was supported by the findings, the companies’ ability to handle it appeared once again to be closely related to the external and internal environment and the interconnectedness and design of the various MCSs surrounding the budget, as well as the purpose(s) employed for having a budget. In terms of gaming, all companies except the Retail Bank shared accounts supporting the critique. In line with the critique, gaming appeared to be highly related to the use of budgets in determining compensation and/or the existence of a performance evaluation purpose as well as the prevailing cultures of the companies that originates from such an approach. In contrast, as the Retail Bank does not solely evaluate performance based on the budget and since they employ a top-down budget process (i.e. policies and procedures), the company has not developed a culture that encourages gaming to any noteworthy extent. Similarly as for the gaming issue, the existence of other dysfunctional behavior appeared as contingent on the interconnectedness and design of the various MCSs surrounding the budget. This issue was
undoubtedly most evident in the Mobile company, where a permeating sales culture together with a strong focus on incentives have made the issue a real concern on the corporate level, despite attempts to resolve it (e.g. quality department, marginal utility incentives). On the other hand, although the other companies could relate to the critique, they had found ways to mitigate the concern. By utilizing on other MCSs such as BSC, KPIs (i.e. hybrid measurement systems), standardized work procedures (i.e. policies and procedures), cultural controls, as well as incentive schemes based on overlapping and comprehensive objectives, the companies appeared to counteract the issue to varying degrees. Furthermore, in the Retail Bank’s case the external environment also appeared as indirectly counteracting certain types of dysfunctional behavior (e.g. the lagging nature of the business in relation to pulling or pushing income). Thus, the insights from the case study companies indicate the decisive role of other MCSs as well as the external and internal environment in determining whether the negative effects assumed by the critique should be anticipated.

Taken together, and in relation to the first critique, the case study companies perceived the costs associated with the budget as less than the associated benefits, not least since a significant portion of the incurred costs associated with the budget not only serve the budget but also other MCSs or various activities that they perceive as essential to running a business – with or without a budget. Furthermore, our case study highlights the decisive role of internal and external contingencies in regards to the costs and benefits associated with the budget. In terms of internal contingencies, our findings indicate how internal technology (e.g. IT-systems) as well as size and structure (e.g. number of organizational levels and units) can constitute determining factors in relation to the definitive cost size associated with the budget. Regarding external contingencies, our findings indicate how market conditions not only can affect the costs associated with the budget (e.g. Retail Bank’s recurrent budget revisions due to changes in macro-economic factors), but also the effectiveness of each budget purpose that a company can choose to employ in their particular situation, that to a large extent in turn determines the potential benefits that can be obtained through budgeting. If one would assume in line with the critics that budgets primarily serve a performance evaluation purpose, then it could be argued that the annual budget appears as a more natural MCS-component within the stable environment of the Healthcare company than the unstable environment of the FMCG industry in which the Mobile company operates. However, representatives from both these companies argued that they obtain significant value from their respective budgets. Our findings indicate that a possible explanation for why both these companies perceived the
budget as value-adding may lie within their chosen budget purpose. While the Healthcare company primarily emphasized the budget’s traditional performance evaluation purpose, the Mobile company mainly emphasized a strategic formation purpose, arguing that the budget process assists the company to “gain weight” and that it facilitates a constructive questioning of the direction of the company. The reasons as to why these two distinct employed purposes result in a value-adding use of the budget seem to be attributed to their alignment with the respective external environment of each company, as well as the connection between different MCSs within the MCS-package. This implies that the external environment constitutes an explanatory factor in regards to the effectiveness of a particular employed budget purpose, which subsequently constitutes the basis for how different MCSs within the MCS-package should be emphasized and connected in order to extract as much value as possible from the particular purpose, and avoid the problems associated with budgeting in general and the purpose in particular (e.g. a performance evaluation purpose in relation to budget gaming and dysfunctional behavior).

Yet, we do not stipulate that only one purpose may be suitable for a particular company. Rather on the contrary, the case of the Industrial company illuminates how several budget purposes (i.e. performance evaluation, strategy formation and operational planning) appeared as successfully employed, although they were emphasized differently between organizational levels and functions. This highlights the importance of taking both the external and internal context of a particular company into consideration when choosing budget purpose(s) in order to maximize the value from the budget. Furthermore, it appeared as both the costs as well as the benefits, and subsequently the perceived value related to the use of budgets, differed relatively among the representatives. This was perhaps even more evident when comparing the sentiment between the representatives of the corporate and operational level. This might indicate that the budget purpose employed at various levels in a particular context of the organization can differ in regards to the potential value that can be obtained through the use of it.

All in all, our case study reflects - in contrast to the view commonly held by critics - a multifaceted view on budgeting in which our findings illuminate how budgets can serve several different and sometimes overlapping purposes while interacting in several different ways with other components of a particular MCS-package. This study also provides indicative evidence questioning the critics’ simplified view of a diagnostic and cost focused use of budgets. Although the Healthcare company’s budget practice arguably correspond to the
practice emphasized by the critics (i.e. diagnostic use with a performance evaluation purpose), the Retail Bank, the Industrial company and the Mobile company exhibit examples of an interactive use of budgets, characterized by a climate that encourage dialogue, idea creation and learning. Additionally, all representatives stated how the budget was used in a value creating and cost focused way simultaneously, rather than just the latter that the critics claim. Consequently, we argue that budgeting should not be seen as a static and stand-alone practice, as our findings evidently demonstrate its complex and contingent nature.
6. Conclusion

To conclude, the findings of this study demonstrate how only the fourth critique against the budget – that the use of the budget as a fixed performance contract leads to unreliable performance evaluation and promotes budget gaming – was perceived as valid by the case companies’ representatives. The other three critiques were either found as totally alien or as partly justified but not a concern to them. Yet, the very heart of this study is that it provides indicative evidence of the critique as contextually contingent with regards to the external and internal environment of a company, suggesting that the relevance of the critique in a particular situation is affected by both imposed prerequisites but also by company decisions whose effect on the critiques’ relevance either can be seen as deliberate or unintentional.

Our findings indicate that the external environment of the case study companies dictates the suitability of various budget purposes that can be employed, and that the employed budget purposes in turn determines the probability for the potential issues assumed by the critics to appear. Furthermore, realizing the potential benefits associated with a particular budget purpose seems to be determined by its cohesiveness with the internal environment of the case study companies, including the budgets interplay with other MCSs. Consequently, the likelihood for the alleged problems of the budget to appear is greater when the alignment between the external and internal environment and the budget purpose is poor, and/or when the budget’s cohesiveness with other MCSs within a certain MCS-package is deficient. Thus, relying on a budget might make more or less sense for the very same company depending on how and why it is used, as it either can enhance or impair the management control and ultimately the efficiency of the company’s overall operation. To this point, we argue that the budget is far from dead as it evidently constitutes a valuable management control system whose multifaceted nature, contingent practice and various features transcends the simplistic view held by the critics.

6.1 Suggestions for future research

In attempting to move the budgeting research forward, we argue that one should not take an either/or perspective – whether the budget is inherently flawed or not – but rather to emphasize the budget as a part of a company’s wider context, both with regards to the external as well as to the internal environment. In doing so we believe that future research could benefit from employing a qualitative research approach where the contingent nature of the budget is emphasized. Although our findings indicate that the external environment can act as an explanatory factor with regards to the suitability of an employed budget purpose and
that the internal environment can determine the ultimate effectiveness of it, future research could further develop our understanding of the role of these contingencies by studying companies operating in the same industry and consequently enable more generalizable conclusions specific to those industries.
References


