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Budgeting at a Crossroads - The Viability of Traditional Budgeting - A Case Study

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Abstract

The objective of this research was to examine the viability of traditional budgeting. In the recent decades, criticism towards traditional budgeting has been notably increased, calling it a relic of the past which hinders companies' effective operations management and even prevents reactions to changes in the market. The most vocal critics favor abandoning traditional budgeting completely. However, at the same time, budgeting is almost universally used. Therefore, the objective was to find out whether traditional budgeting would still be useful and do the critics have a point. The criticism has given rise to a number of alternatives to traditional budgeting and this research analyzed three major alternatives and their plausibility.

As the effectiveness of budgeting systems depend on its appropriateness to the particular company and on the company's environment, business and people, this research was carried out as a case study. The chosen company was a multinational professional services company, which requested to remain anonymous. The focus was limited to Finland's organization.

The research data was gathered by interviewing the case company's managers. In total 11 people were interviewed, consisting of the CEO, CFO, Business development leader and each of the Service Line leader, with supplement interviews from one additional manager in each Service Line excluding one. The gathered interview data was supported by the researcher's observations and knowledge on the processes based on 4, 5 years of work experience in the case company.

The research revealed that the company favors challenging budgets, although global administration emphasizes the planning aspect of budgets; realistic estimates of the outcome. The target-orientation enables a stronger strategic link, especially in the form of growth targets as well as the use of budgets for motivational purposes and target-setting. The company has managed to reduce the need for budget gaming, as even though personal level targets are derived from the budget, achieving them only affects the annual performance rating. While the rating decides the multiplier for the bonus, the actual size of the bonus pool is based on team performance.

The company's budgeting system contains a few issues. First of all their expense control is somewhat ineffective due to ambiguity in the responsibility and authority over the costs. The bigger problem lies in the revenue protectionism, which could be partly solved by reducing the amount of budgeting units.

The results indicated that traditional budgeting can still be considered to be the best possible system for its purpose. The alternative methods analyzed proved to be problematic to replace the case company's current budgeting system and their plausibility remained theoretical in the company's business context. The case company should, however, put emphasis on developing their current budgeting system and practices within the globally set frames in order to correct at least the biggest concerns in protectionism and expense control.

Keywords Budgeting, Financial control, Performance Management

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Tiivistelmä

Tämän tutkimuksen tavoitteena oli tutkia perinteisen vuosibudjetoinnin toimivuutta. Viimeisten vuosikymmenentien aikana kritiikki budjetointia kohtaan on voimistunut. Kritiikissä budjetointi kuvataan jäänteenä vanhasta aikakaudesta, joka haittaa yritysten toiminnan tehokasta johtamista ja jopa estää reagointia muuttuviin markkinaolosuhteisiin. Äänekkäimmät kriitikot haluavat lopettaa budjetoinnin kokonaan. Kritiikistä huolimatta budjetointi on yhä lähes universaalisti käytössä. Tästä johtuen tavoitteena oli selvittää onko perinteinen budjetointi yhä hyödyllistä ja onko sitä vastaan esitetyssä kritiikissä perustaa. Kritiikin myötä budjetoinnin tilalle on alkanut nousta vaihtoehtoisia menetelmiä, joista tässä tutkimuksessa analysoidaan kolmea merkittävintä.

Budjetointijärjestelmän tehokkuus on riippuvainen sen sopivuudesta kyseessä olevaan yritykseen, sekä yrityksen ympäristöstä, liiketoiminnasta ja henkilöstöstä. Siitä johtuen tämä tutkimus tehtiin case -tutkimuksena kansainvälisessä asiantuntijapalveluyrityksessä, joka halusi pysytellä nimettömänä. Tutkimus rajattiin koskemaan yrityksen Suomen organisaatiota.

Tutkimusaineisto kerättiin haastattelemalla yrityksen johtoa. Haastatteluihin valittiin yhteensä 11 henkilöä; toimitusjohtaja, talousjohtaja, kehitysjohtaja, jokaisen palvelulinjan vetäjä. Lisäksi jokaisesta palvelusta valittiin yksi ylimääräinen haastateltava täydentämään aineistoa. Yhdestä palvelusta ei saatu toista haastateltavaa. Tutkimusaineistoa täydensivät myös tutkijan havainnot ja kokemukset 4,5 vuoden työskentelyajalta yrityksen palveluksessa.

Tulokset osoittivat yrityksen suosivan haasteellisia budjetteja, vaikka globaalisti painotetaan budjetin suunnittelunäkökulmaa eli korostetaan realistisia tulosennusteita. Tavoitteellisten budjettien käyttäminen mahdollistaa vahvemman linkin strategiaan kasvutavoitteiden kautta, sekä budjetin käytön motivaatiotyökaluna ja tavoiteasetannassa. Yritys on pystynyt vähentämään tarvetta budjettipelaamiseen, sillä vaikka henkilökohtaiset tavoitteet perustuvatkin pitkälti budjettiin, niiden saavuttaminen vaikuttaa vain henkilökohtaiseen arvosanaan. Vaikka arvosana vaikuttaa bonuksen palkkakertoimeen, jaettavan bonuksen määrä on riippuvainen yksikön suorituksesta.

Yrityksen budjetointiin liittyy muutamia ongelmakohtia. Ensinnäkin yrityksen kulukontrolli on jossain määrin tehotonta johtuen vastuun ja auktoriteettien epämääräisyydestä. Suurempi ongelma linkittyy oman liikevaihdon suojeluun, joka pystyttäisiin ratkaisemaan ainakin osittain vähentämällä budjetoitavien tasojen määrää.

Tutkimustulokset osoittivat, että perinteistä budjetointia voidaan yhä pitää parhaimpana mahdollisena järjestelmänä tässä tarkoituksessa, joskin vain kyseessä olevassa yrityksessä. Vaihtoehtoisilla menetelmillä ei pystyttäisi korvaamaan yrityksen nykyistä järjestelmää niiden ongelmallisuuden takia, ja niiden toimivuus jää teoreettiselle tasolle, ainakin kohdeyrityksen liiketoimintakentän alueella. Kohdeyrityksen pitäisi silti panostaa nykyisen järjestelmänsä ja käytäntöjensä kehittämiseen sallituissa rajoissa, jotta ainakin suurimmat ongelmat, etenkin kulukontrollissa ja protektionismissa, saataisiin korjattua.

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1 Introduction

Budgeting can be considered to be one of the everlasting giants in accounting. Through the years, it has remained relatively unchanged. However, during the last few decades, the criticism towards traditional budgeting has intensified increasingly even to the extent that annual budgeting should be abolished completely. The basis for this criticism is that traditional budgeting cannot keep up with changes and requirements of today's business world (Ekholm & Wallin 2000). Also, budgeting is considered to create problematic behavior patterns within an organization, which include result manipulation and friction between units (Marginson & Ogden 2005)

1.1 Research Background

Budgeting is not flawless, but it is not fair to assume it to be just a relic of the past that would not support the company's current business. If it was, it simply would not be in use. Actually, budgeting creates many advantages, most of all financial control. In short, budgeting sets objectives for revenue turnover and limits for expenses. The set objectives are monitored throughout the year and variances to actual figures are discussed (Bruns & Waterhouse 1975). Budgets also direct the behavior of managers by crystallizing objectives to simple financial figures, which reduces the possibility for interpretation (Marginson & Ogden 2005). In the midst of the aggressive criticism, it is easy to forget the basic idea for budgeting: It supports the company's operations, which are supposed to carry out the company's long-term strategy. Through budgeting, these goals can be communicated to the persons accountable for business results (Hansen & Van Der Stede 2004).

On the other hand, traditional budgeting contains several problems or weaknesses. According to criticism, corporations nowadays should have flexibility and able to quickly react to any sudden changes in the market conditions. Traditional budgeting is seen to hinder or even prevent these requirements (Bunce et al. 1995). Most of the criticism is based on the idea that the rigid annual budgeting enslaves the organization under it. Actually, the whole process is considered to be hazardous as it provokes dysfunctional behavior and manipulation of numbers in order to ease the set objectives to which the managers are evaluated (Libby & Lindsay 2003a). According to Hope and Fraser (2003b), budgeting is just a string of hollow promises to investors. Hope and Fraser give examples about the dangers of budgeting through companies like WorldCom and

Enron. The message is that budgeted objectives led to manipulation and then to the falsifying of results, which eventually lead to the companies' collapse.

There are several alternative ways to budgeting. The changes to traditional budgeting vary from adjustments and focus shifts to completely a new budgeting system. Hope and Fraser (2003b) advocate the idea that traditional, annual, budgeting should be abolished completely and replaced by a concept called "beyond budgeting". In such a scenario, the roles of various indicators are highlighted and the need for fixed objectives should disappear. Also, objectives are benchmarked to both internal and external competition so that they would always be topical and relevant.

Activity-based budgeting (ABB) focuses on the change in the creation of the budget. Whereas in traditional budgeting the budget is created for units, in activity-based budgeting the budget is based on activities. Those activities create the operations budget, which with resource budget is used to create the financial budget. ABB increases the importance of external peers and reduces the time needed for the process considerably compared to traditional budgeting (Bunce et al 1995).

One of the most popular of these alternatives is the so-called rolling budgeting or –forecasting, in which objectives are updated regularly, depending on the current situation. Basically rolling budgeting is quite similar to traditional budgeting, but here the organization would always have 12 or 18 months of the future planned ahead, instead of the fixed 12 months to which the traditional version leans on (Hansen 2011).

There are so many conflicting schools of thought on budgeting that it seems to be standing at a crossroads. One suggestion would be keep using the traditional budgeting, even though is does have problems, since based on its universal usage, it can be assumed that the pros outweigh the cons. But traditional budgeting could also be fixed or adjusted to meet the new requirements of business. On the other hand, it might be time for a change by abolishing annual budgeting and implementing beyond budgeting.

1.2 Research problem and objectives

Theoretically, the budget should be most useful to managers, who can use it for control as well as performance management in order to steer the company towards the company's vision. However, since traditional budgeting has been in use for so long, it is unsure how useful it nowadays really is to managers. As the budgeting process is typically carried out because it was done the year before, it is imperative to examine, whether budgeting is done because it has actual and major advantages or because the company is only used to performing it.

Based on several years' of personal experience on guiding a company's budgeting process, the problems and development needs within budgeting have become clear. As the whole process takes months of the related people's time, budgeting should be of great assistance to the company or otherwise it would not make sense to contribute so much resource to it.

However, in the sense of result monitoring, it appears that prior year figures are more important than budget, possibly because the figures have actually realized and the budgeted figures might be erroneous. On this account, traditional budgeting should be developed to suit better to management's needs or perhaps the company should begin to analyze the alternatives to traditional budgeting. It needs to be analyzed how useful budgeting actually is and what is its effect on managers. Therefore, in this research, the future of budgeting is examined from the management's point of view. The research problem can thus be summed up to the following research question:

- Could the case company's traditional budgeting system be developed to suit better to the needs of the management?

Since the alternative methods have gained so much publicity in recent years, through vast amount of research, this thesis also seeks to examine their adaption possibilities. Thus, the research's objective is to analyze traditional budgeting and its alternatives based on prior research and the data gathered for this study to determine the current status and usefulness of the case company's traditional budgeting and through the received results suggest actions to be taken. The outcome of the research thus highlights what could be improved in the budgeting process in the case company.

This research was carried out as a case study. The company examined was a large multinational professional services company. However, this research focuses solely on the Finnish organization. The researcher himself has worked for the case company from March 2008 with the principal responsibility on the company's budgeting process. But it should be noted that the managers create their own budget figures and the researcher's responsibility is communicating the global budgeting instructions to relevant people as well as overseeing the whole process in Finland.

The case company did not receive a new budgeting system through this research, as it is globally driven, and these kind of major changes only begin from global administration. Nevertheless, this research gives a clear picture of the current status of budgeting from one country's point of view. In addition, there is some room for maneuver within the globally set budgeting framework, meaning that the Finnish budgeting process and budget use could be improved while still following the global guidelines and practices. Thus, the case company's Finnish budgeting process and budget use could improve as a result.

The case study approach makes it hard to generalize the results, and it is possible only on a very general level. Each company's budgeting system is unique and usually the problems and advantages are case specific. However, the results of this research do give an indication on the issues in budgeting, both positive and negative. The issues are recurring on a general level with the weighting shifting case-specifically.

1.3 Scope and limitations of the research

Budgeting affects numerous levels in a company's operations as well as has multiple functions and therefore the research scope must be narrowed. The focus of this research is in operative budgeting and, especially, in Profit & Loss budgeting. Balance sheet budgets are not examined as they are not relevant for the empirical part of this research. In the case company they are handled by one person and the managers, the main actors of this research, do not have anything to do with them.

Furthermore, one of the most significant application areas of budgeting, performance measurement and target setting, is limited to unit level and the personal level's point of view is studied only on its possible link to the financial budget. Performance evaluations are examined through achievement of budgeted objectives, but no further than the unit level, since the case company's personal level objectives are not necessary linked to the budget on lower ranking levels. The official budget goes only as far as unit level. Personal objectives for each fiscal year support the plan, but there may not be a visible link between them.

Additionally, the case company was adamant that actual budgeted figures are not to be used in this research. In fact, the actual budget figures are irrelevant as this research concentrates on budgeting methods and the use of budgets.

1.4 Research Methodology

The research problem is examined from the management's point of view. The topic field is greatly supported by prior research and the goal is to deeply analyze the case company's budgeting system and find out possible development needs and possibilities as well as analyze the feasibility of alternative budgeting methods. The research aims to improve the case company's current budgeting system in order to align it better with the need of the management. Thus the research framework can be considered to be constructive.

This research was carried out as a case study. The company requested to remain anonymous. In the case company, there are approximately 50 people receiving a monthly operation statement and who should be participating in their unit's budgeting. However, some of them have a very similar job description and interviewing all of them would have been extremely time-consuming. In order to acquire as extensive knowledge on the company's current status of budgeting as possible, 11 interviewees were selected. These interviewees included the CEO and the CFO as well as the leader of each Service line, the different business services the company provides. To provide additional coverage, a few other managers were interviewed. The assumption here was there would be significant differences between the Service Lines due to their different businesses. Therefore it was imperative to acquire in-depth information from each Service Line separately.

1.5 Structure of the thesis

This research is divided into 7 chapters. The first chapter introduces the topic and the research. The theoretical framework for the research is presented after the introduction. In the second chapter the related theory to traditional budgeting is presented. Although the basics of budgeting need to be discussed, much more emphasis is given to the advantages and criticism of traditional budgeting. The third chapter continues with the discussion about the alternative budgeting methods. The emphasis of this chapter is similar to that of the second chapter; much more attention is given to the pros and cons of the alternative methods. The fourth chapter summarizes the literature review and outlines the theoretical framework.

The fifth chapter explains the methodology of the research. The sixth chapter covers the empirical part of the research and gives an in-depth analysis of the case company's current budgeting system. The seventh and final chapter handles the conclusions to be made based on the results.

2 Traditional Budgeting

The concept of budgeting seems to have been around for longer than anyone remembers. In the rapidly-changing modern business world it seems that budgets have always been in use and always will be. But the fact that budgeting was designed in a business world and environment that does not exist anymore and has nevertheless remained mainly unchanged through the years draws criticism of its suitability for the modern business. Regardless, traditional budgeting is almost universally used (Bunce et al. 1995). Based on this it can be assumed that budgeting is beneficial for companies, since otherwise, in all of its massiveness as budgeting is a heavy and timely process, it would not be worth doing. Therefore the pros must outweigh the cons.

2.1 Budgeting methods

Since budgeting is not required by law nor does it have any regulations stipulating how and in which form the budget should be done, the approaches for traditional budgeting are numerous. The most influencing factors are organizational structure, the nature and complexity of operations and especially management philosophy as the company's management may want to appear innovative by emphasizing new management trends, even though budgeting is an internal process (Reeve & Warren, 2008, 224). Therefore, each company has somewhat of a unique budgeting system on a detailed level, even though the general concept would be the same.

The idea of the budgeting process is to force the company's and its sub-units' managers to plan their operations for the 12 months to acquire knowledge on where the company is heading to. Budget's financial figures illustrate what the company's strategic, short-term goals are, which can be used to motivate employees to strive to reach them (Reeve & Warren, 2008, 221). In a way, the process itself is as important as the outcome, since through the budgeting process, managers become aware of the factors affecting their units' operations and share information to the upper management as well as to other managers about issues, which can affect the whole company (Donnelly 1984, 106).

By far, the most common idea for the basis for budgeting is to use the previous year's actual figures from the corresponding period and then complete the timeframe from the previous year's budget. Then those figures are adjusted based on the managers' assumptions and goals (Reeve & Warren, 2008, 224). On the other hand, the critical research towards budgeting considers this as the worst possible method (Bunce et al, 1995). Bunce et al continue that the problem is the fact that all too often the initial, perhaps even well thought, budget figures are forced to fit the overall objectives of the company. This breaks the manager's controllability towards his unit's budget, thus lowering the level of commitment to the set targets.

In any case, basing the budget to historical figures does have a logical foundation. Customer relationships do not necessarily disappear and the company can have a strong justification that demand is not collapsing in the following fiscal year. Naturally, the previous year is not an exact match, but especially bigger companies have a client base which to base revenue projections. In addition, operations tend to have yearly peak periods and historical data helps to spread the revenues to the right periods of time. Even so, budgets are not made without further analysis of external factors, e.g. the current economic situation and the expected developments of the macroeconomic situation, known at the time of the budgeting. And finally there is the manager's hunch about the near future, which should not be underestimated (Donnelly 1984, 50–52). But a budget based on historical figures suit better for companies, whose operations are relatively stable. In a more volatile business environment this kind of budget is harder to justify. Also, one of the challenges inherent in this system, are the expenses. If the expense budget is based on the previous year's values, managers may want to make sure that the same amount of money, at least, is reserved for the following year as in the on-going year. Thus, they might spend more money this year to get as much money accepted into their new budget as possible (Hansen & Mowen, 1994, 635).

Zero-based budgeting (ZBB) is a replacement idea to incremental (history based) budgeting. They share many similar traits but with the underlying difference that prior year figures are not used as the basis for the new budget. The founding idea is that previous year's figures should not be taken for granted when planning the future. With the incremental approach, it can be argued that the current year's spending is accepted to the new budget as a necessity and is not questioned at all (Wetherbe & Dickson, 1979; Schmidgall, 1996). Through ZBB, the managers are forced to analyze their operations on whether or not they could be executed more efficiently. But the process is much heavier than in traditional budgeting, so it requires much more time and resources. Therefore, even though ZBB produces an in-depth analysis of the company's operations, it is not a very effective budgeting method (Hansen & Mowen, 1994, 636, 639).

2.2 Budgeting process

In order for the budget to be in use from the start of the new fiscal year, budgeting process starts three to five months before the fiscal year change. The budget can be divided into three parts:

revenue turnover, direct costs and indirect expenses. Direct expenses relate directly to revenue as they, in a service company, contain salary costs. They are quite easy to justify as they can be linked to revenue levels. Indirect or supporting expenses are harder to justify and their allocation within the organization can be complex (Wetherbe & Dickson, 1979). Manufacturing companies would also have a production budget. These components of the budget do not have to be done sequentially, but can be created simultaneously, separate from each other. However, a clear link between them still has to be established so that revenues and the use of resources are in balance.

There are practical reasons for traditional budgeting's timeframe. One fiscal year is short enough to accurately forecast the future, but at the same time long enough to give a wider picture of the times ahead. However, in order to enable coordination and control, budgets are divided into periods, usually into months or quarters (Reeve & Warren, 2008, 224).

In general, budgeting is a back-and-forth movement between the top and lower management. The approach is either top-down or bottom-up. In a top-down approach detail-level plans are given from the top management for which the sub-unit budgets are based on. In a bottom-up approach the sub-unit managers create their own budget and all the various sub-unit budgets are then consolidated to a corporate level budget. Usually the approach is hybrid of these two where the frames are forced from the top management and the unit itself decides on the details (Schmidgall et al. 1996).

This means that the upper management first gives out broad overall objectives and the constraints of the company. Then the lower-level managers create their own budget based on their own expectations and knowledge. Those plans are evaluated by the top management, who assesses and revises the objectives. Lower-level managers then adjust their budget based on those assessments, after which the budget is sent to the top management for another review (Churchill, 1984). In any case, budgets need adjusting and are never final after the first round. The goal is that both the upper and lower-level managers agree on the objectives. Consequently, budgeting is the outcome of multi-level negotiations (Allen & Myddelton 1987, 170).

Active participation to the budgeting process is pivotal. If the lower-level managers are not actively taking part into the process, they will not commit themselves to the set objectives. Commitment is vital as the effectiveness of budgeting depends on it. When managers take part in setting their own unit's objectives, they are more likely to take responsibility for those objectives and can be held accountable (Churchill, 1984). As they take the set targets as their own, they will strive to achieve them. While creating the budget, the corporate level goals must be taken into account, but in order to make the budget realistic, its goals and figures cannot simply be dictated from above, since the lower-level managers usually have a deeper understanding on their unit's business than the finance or the upper management (Hansen & Mowen, 1994, 633–634).

The managers' active contribution to the process is called participative budgeting. It is expected to improve the organizational performance as resources can be more efficiently allocated. Participative budgeting should also improve motivation as the lower-level managers take part in the budgeting process and thus can, or believe they can, influence it (Covaleski et al. 2003; Shields & Shields, 1998). However, a research by Hassel and Cunningham (1993) indicated that the benefits of participative budgeting would be situation specific and not consistent. They found that most benefits of participative budgeting are stemming from the increased communication related to the process and not from the budget itself. Also, the more freedom for their budgeting the managers are given, the more the possibility for dysfunctional behavior increases, which then increases the importance of the controller function (Lukka, 1988).

2.3 Budgeting and strategy

Budgeting is one the key elements for a company's planning and control. Every corporation and its units have plans on the direction of their operations; where, how and when, derived from the company's long-term strategy. The purpose of budgeting is to give those targets and plans financial values, making the progress easily measurable as well as transform those strategic ideas into understandable operative actions (Hansen & Mowen, 1994, 609).

Figure 1 on the next page illustrates the budget's position within the company's strategic process. Although the budget belongs to the planning chain, the control aspect relates directly to it. Assuming that the budget has been made without errors and there has not been any major changes in the market, the variances between the budget and actual indicate either positive situation or that there could problems in achieving the objectives. It should be noted that unexpected changes do occur and no plan could be certain. The budget should not be followed to the letter and never should budgets prevent the company to react when something dramatic changes (Hansen & Mowen, 1994, 609).

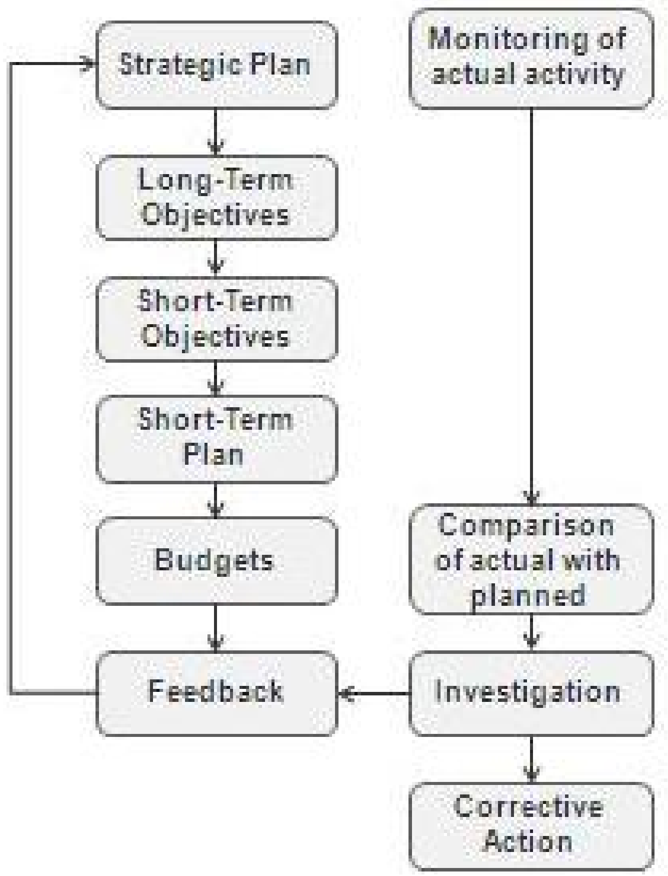

Figure 1, Budgeting in a strategic process (Hansen & Mowen, 1994, 609).

The significance of the strategic connection should be considerable. If the budget has not been linked to the company's strategy, the long-term effects of budget-wise actions may direct operations to the wrong direction. Then again, if the strategy is not connected to the short-term goals, the budgeted objectives may be distorted, which is equally troublesome (Hansen & Mowen, 1994, 609). It is interesting that this extremely important issue receives much less emphasis in academic research than the other potential advantages of budgeting (Hansen & Van Der Stede, 2004).

When strategy is incorporated, the budget can be used to communicate strategic plans to the lower-level managers and all the way to the employees. The communication should be continuous, starting from the budgeting process and moving to variance analysis in order to make the budget's role in management accounting much more interactive. If the budget system is interactive, it is much more useful during a strategic change as the company faces increased unpredictability (Abernethy & Brownell, 1999).

2.4 The advantages of budgeting

Budgeting has many potential advantages. Overall, the purpose of budgeting is to reflect and promote rationality in decision making, since budget gives financial basis for business decisions (Covaleski et al. 1985). From an economical point of view, budgets facilitate decisions by enhancing co-ordination across the different units within an organization, since through budgeting and the related co-ordination the sub-units can learn of the interdependencies which affect their decisions (Covaleski et al. 2003).

Roughly, the advantages of budgeting can be divided into control and performance management, although they are a bit intertwined (Donnelly 1984, 74). Their point of view on budgeting differs. In operations management, the budget's main task is to distribute the resources correctly to make the operations as effective as possible where as in control the idea is to keep the operations stabilized, within the fixed guidelines, so the resource spread is not that important (Amey 1979, 4). The biggest difference between these two perspectives is time. Future events cannot be controlled, so control is based on realization where as performance management can use budgets to coordinate actions, which is happening at the moment or will happen in the near future. However, it should be noted that a fully working budgeting system is only one half of the tool. The effectiveness of budgeting depends also on how managers make use of information budgeting provides (Otley, 1978) and the level of goal orientation of the whole organization (Abernethy & Stoelwinder, 1991).

According to Bunce et al (1995), companies view the financially oriented tasks of budgeting as the most important functions and according to Orlando (2009) those tasks are the main reasons why companies want to maintain traditional budgeting. The financial aspects highlight the traditional uses of budgets: forecasts, cost control, cash flow management and capital expenditure. The operational aspects are not seen as important, which might be a good thing as the operational aspects receive the most criticism. However, this does not mean that budgets should only be used for financial purposes, since there needs to be a link to the operations. Using budgets for setting the unit's objectives can be effective, but using budgets for personal objectives is not viewed as imperative. The use of budgets for personal objective setting and performance appraisal is one of the key criticisms in the beyond budgeting concept (Hope & Fraser, 2003b).

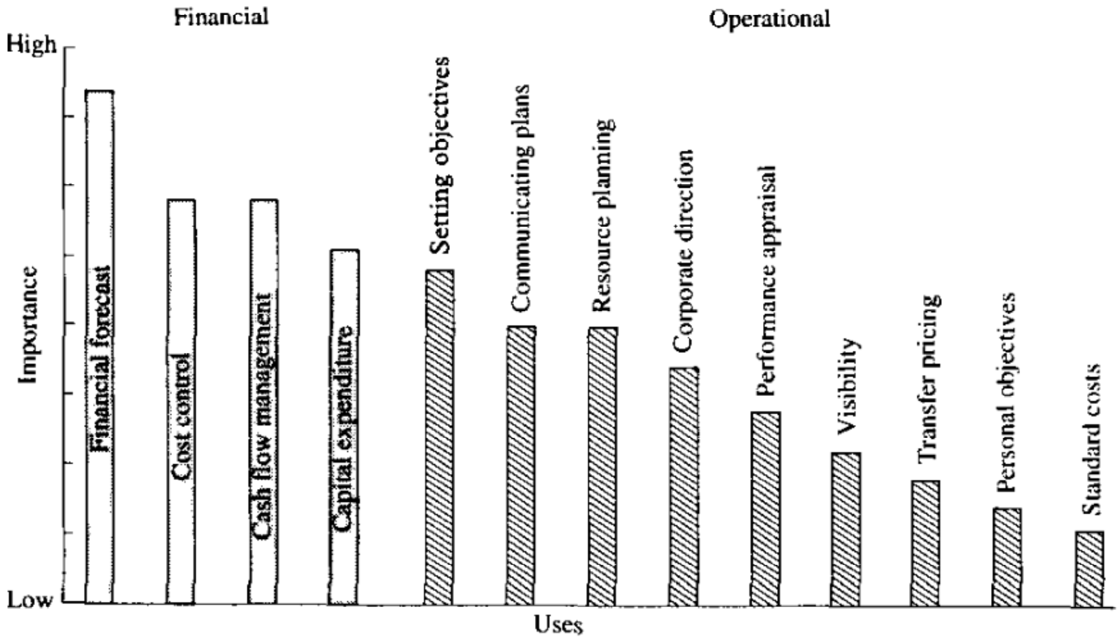

Figure 2, Uses of budgeting for management (Bunce et al. 1995)

2.4.1 Control

The budget is one of the most powerful tools for management control. It can also play a part in the organization's power politics, since top-down budgets can increase the power and authority of top management and limit the autonomy of lower-level managers (Arwidi & Samuelson, 1993).

The traditional point of view for budgetary control is "error-based", which emphasizes the periodic feedback and variance-analyses (Frow et al, 2010). Through reporting, the actual figures can be compared to the budget, thus determining the company's current situation in relation to the budgeted objectives. These budget analyses form the basis for financial reporting (Arwidi & Samuelson, 1993). The analyses can be communicated to sub-units and down to personnel to inform how the business is developing. Any significant variance to the budget should alert the management to react. At first this means analyzing the variances in more detail and corrective actions are made only if necessary. Individual months might have faults in the planned figures, such as phasing issues, but if the variance stays or grows, it does raise a question on whether or not there is actually something to worry about. The budget is meaningless for this part if the variances are just noticed, but the manager does not react in any way (Hansen & Mowen, 1994, 611). However, it should be noted that budget is just one of the tools for management control and that control can exist without budgetary control. Control can also be enforced through a combination of results, action and personnel controls (Van Der Stede, 2001).

Effective budgetary control relies almost completely on the idea that the budget gives an accurate picture of the company's future (Bruns & Waterhouse, 1975). Control usually starts from the controllers and upper management, who follow the monthly results closely. Since a budget's phasing to periods might have some defects, a detailed analysis is more accurate when it is done once a quarter. Then the differences between the budget and the actual figures should be genuine. The comparison should help the management to understand the current situation and to decide what to do in the near future, whether to keep the current direction or try to change the course (Donnelly 1984, 80). Budgetary control becomes problematic, if the market conditions have changed much from the budgeting moment, since the comparability has been reduced drastically. Even though budgets are rarely fixed, it can be possible to make adjustments to the budget making it relevant again to the new reality. However, when the budget is also used for performance evaluation, it should not be adjusted unless it has become so unrealistic that it does not provide meaningful information for any of its purposes (Van Der Stede, 2001).

Control, in the sense of budgetary targets, is seen as one of the key motivators behind performance management. Through control, managers are kept focused on the key issues of the company's business (Frow et al 2010). Budgetary control is also beneficial from a psychological point of view as controlling the costs is considered to be good citizenship within the organization, which makes the managers more inclined in doing so (Marginson & Ogden, 2005). However, the level of control varies. Tight budgetary control should be used for centralized companies in a stable business and more flexible control for companies in a more dynamic and unpredictable business (Covaleski et al. 1985).

There are two different approaches for budgetary control. In "interactive" control performance is regularly discussed, but in "diagnostic" control the focus is only on unfavorable budget variances. The interactive method is mainly for loose control system as it places responsibility on the managers where as the diagnostic control requires managers to explain the differences to the controllers and the upper management, and is therefore used in tight budgetary control (Van Der Stede, 2001). However, it should be noted that budgetary control, in the sense of emphasized budget objectives, can be self-imposed and not always a top-down action (Marginson & Ogden, 2005). On the other hand, budgetary control, regardless of its tightness, is not effective if the managers do not participate in the budgeting process, since in that case they do not own the figures and thus are not committed to them (Greenberg & Greenberg, 2006).

Tight budgetary control is usually reflected through the unit's performance evaluation in which the manager's ability to achieve his budgeted objectives in emphasized. On a larger scale, tight budgetary control includes a low tolerance for budget variances, detailed budget reviews, frequent discussions on the results and a greater emphasis on meeting the short-term budget objectives. However, if the objectives are achieved, it significantly affects the managerial performance evaluation as it proves that the manager is proficient in his/her task (Van Der Stede, 2001). On the other hand, tight budgetary control can increase dysfunctional behavior, such as the creation of budget slack as managers try to secure easier achievability of their plan. It seems that the more profitable the unit is the less control is imposed over it. Poorly succeeding units are put under a heavier control to find out if there is something in need of revising in its current operations (Van Der Stede, 2000).

Nowadays, budget flexibility is often considered to be essential for the managers' ability to react to changes in the market. However, it appears that budget flexibility is required at the level of an individual manager to give his actions more leeway, rather than at a corporate level, as corporate level budget targets are not that prone to be adjusted. The use of budget flexibility does not reduce the emphasis on budget targets. Flexibility should increase the level of responsibility and thus managers are required to explain if the targets are not met (Frow et al 2010). But budget flexibility could decrease the budget related gaming as the objectives can be adjusted when unforeseen events have disrupted the comparability between the budget and actual (Lukka, 1988).

2.4.2 Performance Management

Budgets can also be used to support performance management so that objectives are achieved. If the budget has been prepared properly, it gives the management detailed information about the next fiscal year. This emphasizes the budget's role in the decision-making process. Setting objectives is easier than achieving them. The budget creates the guidelines, but managers must be able to co-ordinate operations so that the budget targets would not become just hollow promises (Reeve & Warren, 2008, 221; Barrett & Fraser, 1977).

The traditional school of thought considers that without budgets, there is only a vague sense of destination, which causes inefficiency and uncertainty. Annual budgeting helps to set frames for operations, which increases discipline. Although it may sound restricting, the frames are thought to help the company to react to changing conditions in the market as the budget supports the management's decisions in the market, but without the budget, a company is managed by the market (Donnelly 1984, 97–98). However, this line of thought has been heavily criticized, since all too often budgets are considered to be binding contracts; objectives must be achieved since they were agreed on at the beginning of the fiscal year (Hope & Fraser 2000; Bunce et al. 1995).

However, budgeted objectives are just the goals and meeting them requires much effort. The budget can support this through analyses. What are the reasons behind the variances between the plan and the actual figures? Even the bigger variances might have logical explanations and if the actual figures are no longer comparable to the budget, it would be unfair to demand managers to achieve targets, which are no longer possible due to changed circumstances or to outside factors (Allen & Myddelton 1987, 173). Naturally, managers cannot succeed just by themselves. Once the targets are set, they need to be communicated to the workforce, so that they know what needs to be done and how (Greenberg & Greenberg, 2006). It can be argued that budgets increase the probability of employees behaving in a manner which leads to the achievement of the company's objectives (Abernethy & Stoelwinder, 1991).

As the manager's job description is usually quite ambiguous, it can induce stress. It is argued that budgeting reduces that ambiguity by giving the manager a direction. Therefore, managers commit themselves to their budgeted objectives, not only because of accountability and the possibility of a reward, but also because the budget offers them a sense of security and the direction where to go (Marginson & Ogden, 2005). Marginson & Ogden found that those with a high level of role ambiguity are more likely to commit to the budgeted objectives than those with minimal ambiguity. However, they also noted that accountability and rewards for achieving the objectives are nonetheless needed. Otley (1978) found that high levels of ambiguity relate to better performance. On the other hand, it should be noted that a high level of ambiguity resulted also to feelings of unfair evaluation. However, Otley found no indications that the budget reduces job ambiguity, which should have happened if the budget would give a sense of security and clarity as described by Marginson & Ogden (2005).

One of the challenges within the advantages of budgeting is that it has problems serving multiple purposes optimally. For motivation purposes, the targets should be difficult to attain, but reachable. Managers would also need to be able to influence the outcome to which they are evaluated as otherwise they would not commit to the budget (Merchant & Manzoni, 1989) and get employees to commit to the predetermined plan of action (Barrett & Fraser, 1977). Also, budgets can be used to signal ability upwards. Submitting ambitious goals can highlight that the manager can and will guide the unit to success and thus should be noted for consideration of any promotion (Merchant & Manzoni, 1989).

However, for planning purposes, the budget should reflect the management's estimate on the outcome, but a realistic budget does not motivate that well as a challenging one (Barrett & Fraser, 1977). But as most companies do not have multiple budgets, one must serve all purposes (Merchant & Manzoni, 1989). Merchant & Manzoni (1989) found that budget targets are achieved in most cases which would indicate that the planning role is emphasized instead of the motivation aspect. If the budget's main purpose is to give an accurate estimate on the next fiscal year, then the control purpose is given more weighting.

Even though the top management should not accept too easy-to-achieve targets, they have many reasons for doing so. If the targets are not set too ambitious, then the budget does not overestimate earnings. In most cases spending is, at least in some ways, tied to the earnings, so budgeting slack could reduce spending. Also, although difficult objectives would motivate people to achieve them, they can also reduce the level of commitment, if the managers do not think they are realistically achievable in the first place. Lower budget targets would also require less control analysis. Therefore it seems that overly ambitious targets could be more harmful for the company than realistic or sand-bagged objectives (Merchant & Manzoni, 1989).

Even though objectives would be set on a unit level, they can be used in managerial performance evaluations. It is not a question of how well a manager can predict the future, but rather the skills to manage operations to the set direction. In order to have meaningful comparisons on actual figures, some kind of standards must be used. And as budgeting provides information on effectiveness and efficiency, the two key performance management indicators, it can be a clear choice (Hansen et al. 2003). Since the budget as a basis for performance evaluation does not require in-depth knowledge on the managers' tasks and is in most cases comparable between sub-units, it is easy to apply for the related purpose (Covaleski & Dirsmith, 1983).

On the other hand, an accurate prediction of the near future highlights the fact that the manager is able to predict the consequences of performance (Marginson & Ogden, 2005). And to a large extent, the budget's usefulness relies on accurate planning, so the manager's predictions should not be ignored (Bruns & Waterhouse, 1975). If the budget is used in performance evaluations and rewards, its influence on decisions increases drastically, since managers acquire a clear understanding how the budgeted objectives affect them personally (Covaleski et al. 2003). Managerial performance evaluation becomes much more difficult when evaluating managers' individual performance levels.

Mainly, budgets should not be used for personal level evaluations, since budgets contain several costs or circumstances to which the manager has no control over and it would be unfair to evaluate performance without removing those issues (Barrett & Fraser, 1977; Ansari, 1979). Also, as budgets are in financial terms, their use as the sole basis for performance evaluations would exclude the quality aspect of the work completely as well as all the other non-financial metrics (Covaleski & Dirsmith, 1983) and the financial terms do not reveal whether proper actions have been taken under the circumstances where non-controllable issues have disrupted the operations (Abernethy & Stoelwinder, 1991). On an interesting note, Hansen & Van Der Stede (2004) found that the importance of budget in performance evaluations seemed to reduce with intensified competition as uncertainty and uncontrollable risks are increased, which would indicate that budget use for performance evaluations would work mostly in stable businesses.

Regardless of the behavioral effects of budgets in performance evaluations, it is agreed that a certain amount of emphasis on budgeted objectives is favorable. If performance evaluations emphasize budgeted targets, the managers are more likely to achieve them. The reason for this may not be the improved actual performance, but rather the improved forecasting skills. With the high emphasis on budget, the managers think the budget figures thoroughly through before submitting them. Through trial and error, the managers' forecasting skills improve, thus increasing the quality of the budgets (Otley, 1978).

2.5 Criticism of traditional budgeting

Historically, traditional budgeting has been one of the central financial processes companies have. It has, however, become perhaps one of the main targets of the criticism in accounting. Regardless of the stance towards budgeting, it can be agreed that business is not what it was when the concept of budgeting was created. The change has made the market volatile, extremely competitive and customer-driven in contrast to the old stable markets which were more supplier-driven. This has created a shift of emphasis from internal effectiveness, in which traditional budgeting is a useful tool, to external effectiveness or competitive edge (Ekholm & Wallin, 2000). An interesting point relating to the criticism is that the most aggressive critics are management consultants, which leads to the question of whether or not their motives behind the criticism are to get organizations to adapt the management system they happen to advocate (Ekholm & Wallin 2000).

Naturally, not all agree with the critics but there is a widespread dissatisfaction towards traditional budgeting (Bunce et al. 1995; Hope & Fraser 2000, 2003a, 2003b; Bogsnes, 2009; Marcino, 2000). There are numerous cited problems with traditional budgeting, but they can be summed up to three categories: time, process and centralization as well as people related (Hansen et al. 2003).

2.5.1 Time related criticism

The time related issues are perhaps the most recurring theme in the criticism. Budgeting is usually quite a long and heavy process. It takes four to five months to make, on average. Usually, the budgeting process and related tasks takes up to 30% of managers' time, which can extremely costly. Considering the time is consumes, it adds only a little value to the company (Hope & Fraser, 2003a, 5-6, 2003b; Libby & Lindsay, 2003a). Also, as most budgets are done annually for one year ahead, their timeframe is thought to be too long for the modern day business environment (Hansen et al. 2003; Ekholm & Wallin, 2000). On the other hand, it does seem that the percentage of their time managers spend on budget related tasks is somewhat inflated. According to Libby & Lindsay (2010), managers spend, on average, only six to eight percent of their time on budgeting related work. Naturally, the time spent increases with the size of the company as well as with how much of their time managers want to devote to budgeting.

Relating to added value of budgeting, Libby & Lindsay (2010) concluded that most companies consider budgets to have quite a good value and most, at least on some level, think that budgets are an indispensable tool for management. Naturally, the value of budgeting correlates heavily with the use of budgeting, e.g. a well-working budgeting system leads to higher performance levels.

2.5.2 Process related criticism

The second category relates more to the way budgets are prepared and to the related management philosophy. In most cases, budgets are created by using the incremental approach, as explained in chapter 2.2, where budgeted figures are prior year actual plus or minus an amount. Even if the manager creates the budget with real thought and realistic estimates, problems can arise if the lower level budgets are forced to be aligned with the overall financial targets of the company and the budget no longer represents the manager's take on the upcoming fiscal year (Bunce et al., 1995; Lukka, 1988; Marcino, 2000).

The incremental approach is said to disconnect the budget from the company's strategy, since budgeted figures are derived from the previous year's corresponding ones and thus are not based on the strategy (Bunce et al, 1995). However, Libby & Lindsay (2010) found that budgets are extensively used to implement the company's strategy. In fact, budgeting is the most important management tool for this purpose as companies use the budget to promote strategically aligned behavior. In addition, the incremental approach creates problems with expenses. If the budget is based on previous year's figures, the managers might feel the need to spend this year's budget to secure the same amount of money for next fiscal year too (Libby & Lindsay, 2003a).

Unpredictability in the market has increased as new market developments appear faster and customer loyalty is reduced compared to the days of old when traditional budgeting still was the preferred option. Therefore companies need to be able to react when conditions change (Hope & Fraser, 2003b). Due to the fixed nature of budgets, adaption to changes is slower. And as budget's reflect the status quo; what is acceptable and appropriate at the moment, budgeting may steer focus away from the alternative targets and processes which could be beneficial in the near future (Covaleski & Dirsmith, 1986). Since budgets are in financial figures, the emphasis easily focuses on cost reduction where as the critics focus would emphasize more on value-creation, maximizing shareholder value. (Hansen et al. 2003).

The research by Libby & Lindsay (2010) supported the criticism that unforeseen changes make it difficult to create accurate budgets. They also found that companies consider budgets to be of only somewhat useful in adapting to changes. However, they also found that approximately half of the companies researched were able to revise their budgets if needed or were able to acquire resources outside the budget. Therefore it seems that budget does not impede adaptability to changes, although it offers no help either.

2.5.3 People related criticism

The third category contains people related issues, which the most problematic aspects of budgeting relate to. Emphasis on achieving the budget objectives creates dysfunctional behavior and gaming as well as complicates co-operation within the organization as all teams focus on their own budget. These problems arise especially when budgets are used for performance measurement and personal target setting. This might hyper-emphasize the importance of the budgeted objectives and entice the managers to manipulate their figures, either the actual figures in favor of the budget objectives or the budgeted figures themselves (Hansen et al. 2003; Arwidi & Samuelson, 1993).

The most prevailing issue is setting the goals deliberately too low or too high. Low objectives are problematic in the sense that after the objectives have been achieved, there is little psychological or extra monetary reward remaining for the manager for exceeding the targets (Marginson & Ogden, 2005). Setting aggressive stretch goals can be equally hazardous. If it is noticed that the budgeted objectives will not be reached, managers may want to push revenues to the next fiscal year and let the on-going year fall short as the year has been lost in the sense of the objectives and rewards (Jensen, 2001).

The creation of budget slack relates heavily to the problems in target setting. Budget slack means that a manager deliberately underestimates revenue turnover or overestimates costs, making it easier to achieve the overall budgeted objectives (Hansen & Mowen, 1994, 634). This, as well as managerial short-termism, is usually seen as the most prevailing example of dysfunctional behavior. Managers who are unable to achieve their objectives suffer a loss in credibility, which can have harmful effects on the person's career and bonuses. Also, consistently underachieving manager is usually put under tighter control and the possibility of top management interfering increases, which any manager would try to avoid (Merchant & Manzoni, 1989).

On the opposite side of the spectrum, where budgeted objectives are emphasized, tight budgetary control is used and short-termism prevails. Curiously, these two forms of dysfunctional behavior are negatively related, since with budget slack the stress on achieving objectives is less severe, thus reducing the managerial short-termism (Van Der Stede, 2000). Van Der Stede concludes that tight budgetary control reduces the level of budget slack, but at the same time increases short-termism by making the short-term goals harder to achieve. A research by Merchant (1985) found similar results regarding budgeting slack, but also that the superior's ability to detect slack has much more influence to its creation than the level of control. Therefore, it seems that opportunity makes the thief.

Budgets are easily considered to be fixed performance contracts to which the subordinates performance is measured. When the managers know their bonuses are based on budgeted objectives, problems arise (Hope & Fraser, 2003b). Setting budget objectives as low as possible is one solution, but a greater threat is the manager trying to achieve objectives regardless if the company suffers in the process. In order to achieve the set goals, the manager emphasizes those metrics which relate to his/her bonuses. Also, if the goals are already reached, managers can re-allocate costs or delay revenues, so that the next bonus cycle receives a positive effect (Arwidi & Samuelson, 1993). The monetary value from this kind of manipulation might be small to the company, but it can change the characteristics of the operations and can lead to higher costs in the near future (Jensen, 2001).

Jensen (2001) argues that the solution would be separating rewards from budgets. The budgeted targets would still be there, but the managers' rewards would be based on the actual performance on a linear model, meaning that the better the outcome is, the more the manager receives compensation. Jensen continues that non-financial rewards should always be separated from budgets, since basing promotions on forecasts increases budget gaming as much as monetary compensations.

In order for the managerial performance evaluations to work fairly, all non-controllable costs and events should be excluded from the evaluation. However, this alone can cause problems as the managers could try to protect their own controllable costs regardless of other sub-units. The definition of non-controllable is itself a problem as something defined as controllable may be greatly affected by non-controllable events (Ansari, 1979). Thus managers may never have complete control over their unit's outcome.

Since performance evaluation related problems are considered to be the most problematic issue in traditional budgeting, it is surprising that most companies do not use budget for that purpose. Subjectivity in evaluations is much more widespread. Therefore this criticism towards traditional budgeting is somewhat exaggerated (Libby & Lindsay, 2010). Gaming issues, however, were much more prevalent. According Libby & Lindsay, the most used forms of gaming are deferring expenses to a future period and negotiating lower targets in order to create budgeting slack. The so called "taking a big bath" means that the managers concedes the fiscal budget-wise and moves costs belonging to the next budget to the lost year as well as defers revenues from the current to the next year. Thus, the following year's objectives would be easier to achieve. It is, however, difficult to determine how much budgeting gaming actually impairs the company's operations. As figure 3 on the next page illustrates, most gaming issues happen occasionally, but are not so widespread. However, all issues may exist unnoticed or were not admitted in Libby & Lindsay's research.

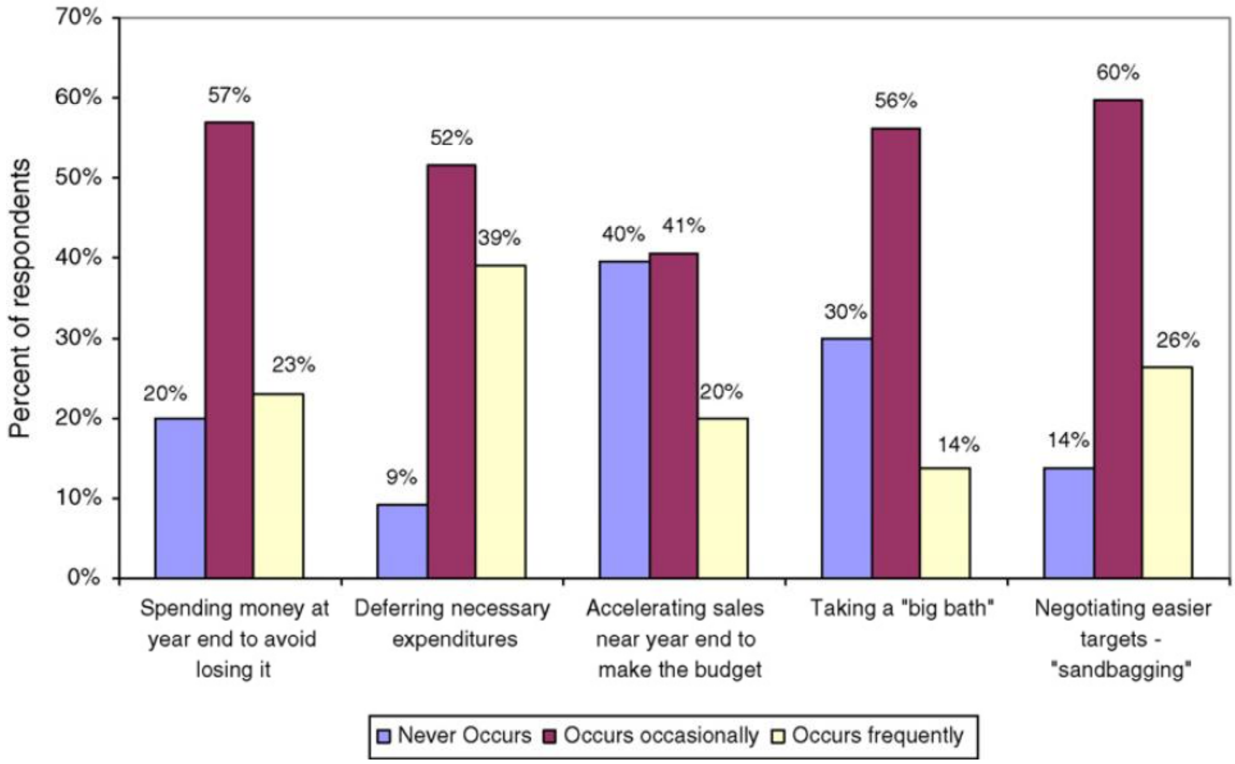

Figure 3, Budgetary Gaming (Libby & Lindsay, 2010)

2.5.4 Approaching the criticism

Basically there are three approaches towards the challenges in traditional budgeting: doing nothing and living with the problems, as there might not be a better system available for the company, trying to fix the traditional budgeting system to meet the modern requirements or completely abolish it (Hansen et al. 2003). Considering all the problems related to traditional budgeting, it could be assumed that an increasing number of companies would want to get rid of it. However, traditional budgeting is still almost universally used and in fact, it seems that most companies do not have any plans of abandoning it (Ekholm & Wallin 2000). Then again, it could be just that companies are used to do budgets, which are deeply ingrained into the organizational culture (Hansen et al. 2003).

A research by Ekholm & Wallin (2000) showed that most companies are not planning to abolish traditional budgeting at all. The emphasis seems to be on developing it to meet the new realities. A more recent research by Libby & Lindsay (2010) supported this. A vast majority (80%) of companies participating in their research used budgets for control purposes, which is the traditional function of budgets, and almost none had plans for abandoning its use. There were plans to adjust the budgets in the near future to reduce the time needed to make them, to increase flexibility and to reduce budget gaming. These problems are brought up in almost every criticism on budgeting.

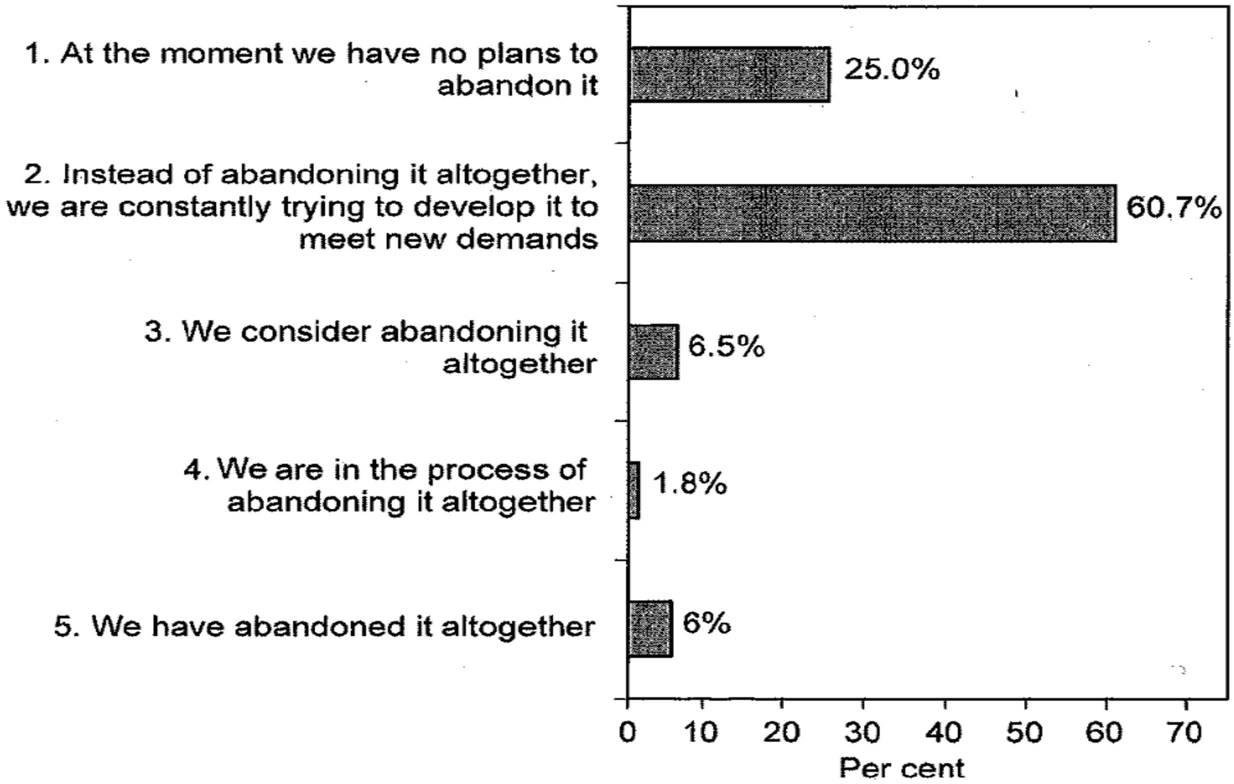

Figure 4, the status of the annual budget (Ekholm & Wallin, 2000).

3 Alternatives to traditional budgeting

Due to the intense criticism, alternatives to traditional budgeting have started to gain momentum. The alternatives share the same trait that traditional budgeting is broken and should not be fixed. However, all the critics agree that something is needed in its place. The solutions vary from modifying traditional budgeting to suit better for the needs of the modern business world to completely obliterating traditional budgeting. This research analyzes three main alternatives: Beoynd budgeting, rolling budgeting and activity-based budgeting.

3.1 Beyond Budgeting

The concept of beyond budgeting is probably the most radical alternative to traditional budgeting. Its central goal is to abolish annual budgeting, replace it with benchmarked metrics and eventually completely decentralize power (Hope & Fraser, 2000). This is based on the idea that budget figures prevent managers from making correct actions for the good of the long-term success of the company (Arwidi & Samuelson, 1993). The leading advocate for the beyond budgeting concept is the Beyond budgeting round table, which is a meeting place for companies, organizations and consultants, who all share the opinion that something is wrong with the traditional budgeting (BBTR; Bogsnes, 2009, 53).

In today's turbulent business world, units within a company require more room to move, to achieve their potential. This means challenging almost every aspect of traditional budgeting (Bogsnes, 2009, 7). However, the emphasis is on changing performance measurements and the related employee compensations (Hansen, 2011). The transition to beyond budgeting is a two-phased process. The first phase is to replace traditional budgeting with the beyond budgeting concept. The second phase is decentralizing the whole organization (Hansen, 2011), increasing the independence of lower level managers. This would enable managers to make fast decisions, since they no longer need to base their decisions on budgets alone. All they would have to do is to reach to the agreed key indicators (Hope & Fraser 2000). However, as the focus of this research is on budgeting, decentralization aspect is not examined here.

Even though beyond budgeting is a relatively new concept; there are several success stories already, like Borealis who abandoned traditional budgeting in the 1990's, before the emergence of the beyond budgeting concept (Bogsnes, 2009; Libby & Lindsay, 2003b). Handelsbanken is likely the most cited company using BB as it abandoned traditional budgeting in the early 1970's (Hope & Fraser, 2000, 2003a, 2003b; Bogsnes, 2009; Libby & Lindsay 2006). Since it has been using its own model for years, long before the development of the beyond budgeting concept, it is fair to say that Handelsbanken's influence on the concept cannot be undervalued as it forms the basis behind the idea. The use of Handelsbanken as an example for beyond budgeting is a bit conflicting in relation to the need to abandon traditional budgeting as presented by Hope & Fraser (2000;2003b), since Handelsbanken is not operating in an industry, which requires fast adaptability to new conditions. Also, their business makes it easier to decentralize as branches can work with high autonomy (Libby & Lindsay, 2010).

Changes to traditional budgeting

As the beyond budgeting campaigns to abolish traditional budgeting, the changes in the processes towards the old way are numerous, but they can be summed up to six points, which are target setting towards relative improvement, basing evaluation and rewards on benchmarked relative metrics, making planning process continuous, effectively allocating resources where they are needed, coordinating cross-company actions as well as encouraging cooperation and basing controls on relative performance indicators (Bogsnes, 2009, 55; Hope & Fraser, 2003a, 70).

In beyond budgeting, targets are no longer set as fixed financial figures. The goals are set as stretched, showing how far the company might be able to reach this year, if everything succeeds. It is stressed that managers' rewards are not based on those goals. The fixed financial figure objectives are replaced by key performance indicators (KPIs), which usually are different kinds of ratios and measurements, both financial and non-financial targets (Libby & Lindsay, 2003b). The goals should be benchmarked to both external and internal peers. But the objectives are not annual; they might have different time periods in which to achieve those benchmarked measurements. Targets are also set comparing to internal peers, using KPIs as targets. The use of KPIs enables comparability, even if operations differ to some extent. Fixed figures might not be comparable, but ratios and other indicators are. All this enables the target setting to be done much faster, in days rather than months. (Hope & Fraser, 2003a, 71-73).

Performance measurement and reward issues are seen very problematic in traditional budgeting. These aspects are also one, if not, the major issues in beyond budgeting (Hansen, 2011). In beyond budgeting, rewards are not linked to fixed targeted outcomes, but on KPIs, thus underlying the importance of relativity. The bonus systems should be designed to evaluate the whole team's performance, which decides the bonus pool. Evaluation is done by comparing teams to peer groups, benchmarks and prior year figures. The system enables teams to get relatively good bonuses even in a bad year, since their performance is compared to others. The only challenge is that since there are no fixed objectives, peer reviews can be subjective. But as the rewards are not linked to fixed targets, the gaming and manipulation of numbers reduces. In any case, the financial bonus paid should not be as important as recognition, since self-satisfaction from the work itself should motivate people better than any yearly paid bonuses (Hope & Fraser, 2003a, 73-74, 76-77).

Action planning changes too, highlighting the significance of the managers' actions. The managers are not trying to achieve fixed objectives, but they are responsible to take actions in order to maximize customer and shareholder value. The upper management set the high-level strategic targets, boundaries and direction which create a frame in which the lower-level planning is done. The lower-level managers propose their own plans and then both views are challenged so that the best possible objective is set. This process does not contain detailed analyses, but rather the action plans are designed on a broad level, and thus the process takes much less time than traditional budgeting. The situation is examined for outlooks periodically, but managers should continuously be looking out for indications of change. This focuses the actions to value creation and should link strategy better to operations, make it a continuous process and enable adjusting of targets when the market conditions change, which is something traditional budgeting cannot do (Hope & Fraser, 2003a, 77-79; Libby & Lindsay, 2003b).

Within a centralized administration, the approval process for additional resources can be quite slow, which hinders the manager's decision-making process. To hasten this, managers should have more freedom of their own resources, but still with accountability (Libby & Lindsay, 2003b). Therefore resource and expense control is based on KPIs and not on fixed limits. Available resources are based on, e.g. cost to income ratio so the more revenue a unit generates, the more resources it has available to use. Beyond budgeting also advocates the idea that managers could decide which operational resources they need from internal providers. It should be noted that this method does not mean that managers can simply spend on whatever they want. In order to keep control on expenses, setting approval levels is needed to prevent managers to spend freely (Hope & Fraser, 2003a, 82-83).

When fixed plans are not made, co-ordination of activities is based on current market demand. This encourages co-operation within the organization as individual teams do not have to worry about meeting their own budgets, even though their own niche in the market is slow at that moment. Therefore, actions can be coordinated to support that part of the business where customer demand is higher at the moment (Hope & Fraser, 2003a, 84).

Control has been highlighted as one of the major advantages of traditional budgeting. Control is potent in beyond budgeting as well, even though there are no fixed figures. Effective governance creates boundaries in which the managers work. Managers are also required to justify their assumptions and risks. As in traditional budgeting, reporting plays a major role for control in beyond budgeting. But rather than looking into a few months of information at the time, reporting should focus onto trend analyses. One of the possibilities is replacing the current year-to-date figures with a rolling 12 months view, thus eliminating fluctuations in the figures. (Hope & Fraser, 2003a, 85-87). In order to have a better view of the future, rolling forecasting is used. The forecast is meant to be done quickly and broadly, just to give a picture of the key indicators of the operations (Libby & Lindsay, 2003b). The figure 5 below illustrates the beyond budgeting idea, the continuous adaptive process.

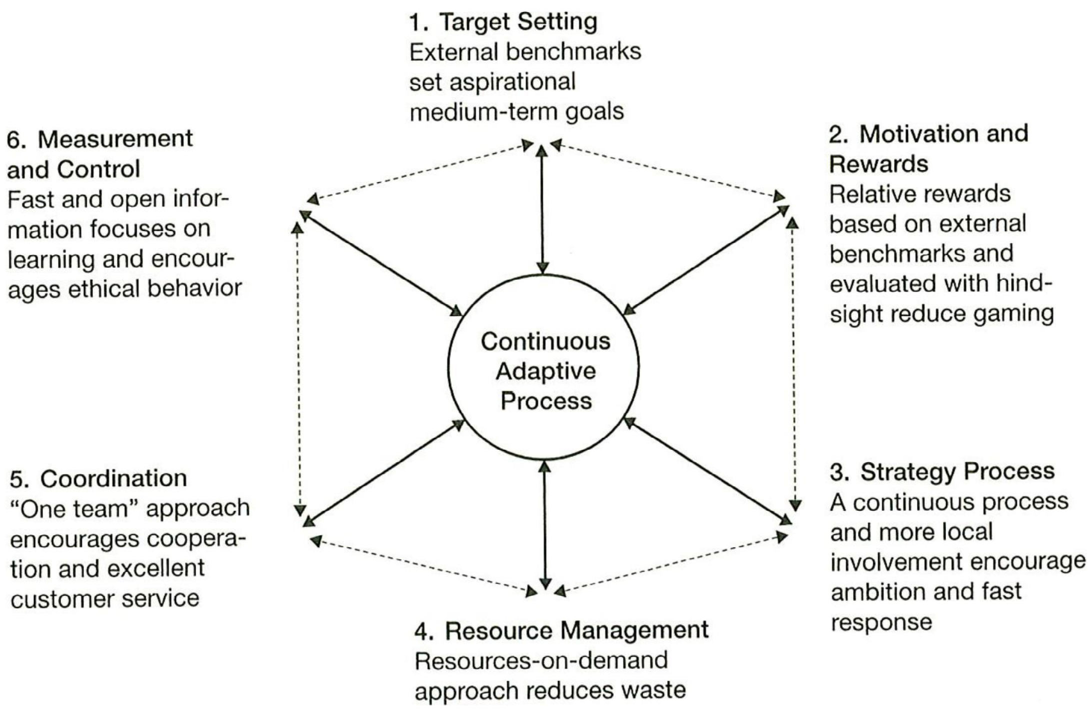

Figure 5, the principles of beyond budgeting (Hope & Fraser, 2003a, 70)

Hansen's research about beyond budgeting (2011) indicated that beyond budgeting does improve performance evaluation as manager's actions are compared also to external benchmarks. The results also indicate that beyond budgeting does increase the output of the company. However, it seems that the emphasis on the external benchmark reduces the need for quality forecasts as the company no longer needs to generate so much own information for monitoring purposes. Therefore, the beyond budgeting concept does improve performance evaluation but impairs operational planning.

Interestingly, there is some research evidence that most companies would have difficulties implementing the relative performance measurements, because they do not have sufficient data to do so, since they are operating in a highly competitive and rapidly changing business environment. Sadly, this is where the beyond budgeting concept should work at its best (Hansen et al. 2003; Frow et al 2010). However, Hope & Fraser (2003b) note that companies may need to acquire the benchmarked competitive information from specialist firms, who have a deeper knowledge on that particular industry, as a service. Then again, all data is not available, and key pieces of information might remain in the dark. Even so, it should be considered that each company has unique features which might affect the comparisons and not all competitors are accurately comparable to each other (Malkovic 2011).

In addition, the use of ratios can create more problems than it removes. When ratios are used as metrics, managers have two ways to manipulate the figures, both by increasing the numerator or decreasing the denominator. Thus the use of ratios can give managers' gaming more options than with just fixed financial objectives by deferring or re-allocating revenues and costs (Jensen, 2001).

3.2 Activity-Based Budgeting

Activity-based budgeting (ABB) focuses on creating the budget based on activities rather than units. Traditional budgeting's financial orientation and high-level process are seen problematic, since the operational managers' understanding for financial terms is limited and the top-down process is disconnected from the activities (Hansen et al. 2003). This is interesting, considering the fact that budgets are mostly used for financial purposes (Bunce et al. 1995). In ABB, the focus is on the external issues rather than internal as in traditional budgeting. Thus, the operational budgets are created before the financial (Bunce et al., 1995). The idea is to create a new budgeting model, which gives the company more flexibility to react to unexpected events, thus emphasizing the importance of operational planning (Hansen 2011).

Companies have estimates on demand for their services. In ABB, knowledge is used to forecast the demand for activities and also for the usage of resources to run them. After this, a balance between the demand and available resources needs to be found, thus creating the operational plan. The financial budget is created based on the operational plan, since demand, activities and resources are known. Then the cost of resources has to be determined, which are used to balance the financial side of the budget (Hansen et al. 2003). A clear advantage in ABB would be overcoming the incremental approach. Since revenue and costs are linked to activities, they are allocated more effectively and are not linked to prior year figures, but to actual need. It also highlights the external focus such as deriving target costs from customer and market requirements and basing target setting on internal and external benchmarks (Bunce et al., 1995).

One of the goals in ABB is to reduce the bureaucracy and time needed in traditional budgeting. When the process is not so heavy, the added value compared to the time spent making the budget increases (Bunce et al., 1995). Since the ABB budgeting model is usually a computer based, it can easily be updated to new circumstances (Hansen 2011). One key issue is defining the activities, since vague descriptions make it hard to properly analyze the activities and place any kind of values on them (Marcino, 2000).

Like beyond budgeting, the ABB process is still a relatively new concept, its benefits are still potential. ABB highlights any imbalances and inefficiencies, information that can be used to improve operations as the company can see where the resources are needed. Communication of objectives improves as the lower-level managers understand operational terms better than financial. And as the budget is based on activities and not on units, it enhances co-operation within the organization. However, it should be noted that there is very little evidence supporting these benefits and the actual feasibility of the system (Hansen et al. 2003).

3.3 Rolling budgeting

One possible variation for traditional budgeting is continuous or rolling budgeting, in which the company constantly has several months planned ahead. Rolling budgeting is perhaps not the biggest change towards traditional budgeting, but it is one of the most popular of the alternatives, maybe since there is no huge change. Whereas in beyond budgeting the emphasis is on performance evaluations and rewards and the ABB emphasizes a new, more sophisticated model which improves operational planning, rolling budgeting's focus is on improving the forecasts and changing the forecasting function (Hansen 2011).

Unlike traditional budgeting, which is usually done for the next 12 months ahead and then a new budget is done before those 12 months run out, with rolling budgets the process is more continuous. Rolling budgets usually have twelve to eighteen months of the future forecasted

(Hansen 2011; Reeve & Warren, 2008, 224), although the budget period can be much shorter, even only a quarter (Barrett & Fraser, 1977). Since the process is continuous, it needs to be lighter than with the traditional budgets, otherwise managers would not have the time to update them. This usually means focusing on pre-determined key indicators (Ekholm & Wallin 2000).

It is thought that with the use of rolling budgets, the quality of the forecasts improves as the managers are in a constant need of forecasting data. This constant demand improves the quality of the data provided and thus improves the quality of the forecasts. Also, in time the managers' forecasting skills improve, making it possible to handle the process quickly. Improved forecasts should lead to an improved overall performance (Hansen 2011). The continuous process gives rolling budgeting an image of flexibility, far away from traditional budgeting's stifling image. As the figures are updated on a regular basis, the forecasts do not rely on obsolete figures, which should lead to a more timely allocation of resources (Ekholm & Wallin 2000).

However, one challenge in rolling budgeting is that the forecasts can change all the time, especially if the company's business is turbulent. Even though the system should be able to handle the changes, it increases the feel of uncertainty in the managers. And since the figures can change, the system should not be used for performance measurement and reward setting (Ekholm & Wallin 2000; Frow et al, 2010). It would be unlikely that the managers commit themselves to budgeted objectives, if they are used in performance evaluations and they would know that the standards can change during the year (Barrett & Fraser, 1977).

Designing the system and creating accurate forecasts require understanding and knowledge on the industry, technology, competitors and suppliers and the connection between them (Malkovic 2011). One notable point regarding rolling budgeting is that its use is recommended by those advocating beyond budgeting (Hope & Fraser 2003b; Libby & Lindsay 2003b) and ABB concepts (Hansen et al. 2003). The other alternatives, however, want to change more in the budgeting field than just the time scope.

4 Theoretical framework

4.1 Summary of the related literature

Traditional budgeting is as an annual process, in which the company's operations are planned for the next fiscal year in financial terms. If the process is done as it should be, the budget's financial terms illustrate the company's short-term goals based on the company's long-term strategy. Managers' participation in the budgeting process and creation of their own units' budget are imperative, since otherwise they would find it hard to commit to the set objectives (Hansen & Mowen, 1994; Reeve & Warren, 2008).

The most perceivable advantages of budgeting are control and performance management. Budgetary control enables the monitoring of the company's progress as it gives a standard which to compare actual figures. Significant negative variances should force the company to react and make changes before the problems expand. The intensity of the control should be well thought, as e.g. tight budgetary control works mainly in stable business. Budgetary control is useful only if the market conditions are fairly the same as they were during the budgeting process. If the numbers are not comparable, the emphasis on budget is pointless. Therefore the use of tight control in a turbulent business can lead to complications as it hinders the company's ability to react (Donnelly, 1984; Covaleski et al 1985).

Relating to performance management, a budget sets frames for the unit's operations and supports the managers' decision-making process. There are, however, some problems in that budgets do not serve all of its purposes optimally at the same time. Budgeted objectives motivate better when they are difficult to achieve, but for planning purposes the budget should give the most likely estimate of the following fiscal year. The budgeted objectives are easily measurable and as they can be used for motivational purposes, it can be natural to use them for performance evaluations too (Marginson & Ogden, 2005; Barrett & Fraser, 1977; Hansen et al, 2003). However, the use of a budget as the basis for managerial performance evaluation is quite problematic and one of the major sources of criticism. It can lead to dysfunctional budgeting behavior where either the budget figures or the actual are adjusted to ease the achievability of the objectives (Hansen et al 2003; Hope & Fraser 2003a; Jensen, 2001).

Regardless of the criticism, most companies are not planning to abandon traditional budgeting, although many are in the process of developing it (Ekholm & Wallin, 2000). This does hint that budgets are of use to companies and can provide a basis for business decisions and support coordination within the organization (Jensen, 2001). In addition, it should be noted that Libby & Lindsay's research (2010) found that many of the targets of budget criticism were at least to some extent exaggerated. The criticism, however, has given rise to alternative budgeting methods, varying from small changes to a completely new system. In this research, three alternatives were taken into a deeper analysis, beyond budgeting, activity-based budgeting and rolling budgeting.

Beyond budgeting abandons most of traditional budgeting's characteristics, although maintaining a forecasting purpose, only as a much lighter version. In beyond budgeting, targets are set as stretched, fixed financial metrics are no longer used and most metrics are ratios based on pre-set key performance indicators. KPI's are used also for performance evaluations, which for this purpose are benchmarked to external peers (Hope & Fraser, 2003a; Bogsnes, 2009).

Activity-based budgeting changes the financial orientation of traditional budgeting to an operational focus. In ABB, budgets are built from activities within operations. Once the operational budget is ready, it is balanced with the available resources. After activity- and resource-budgets are in balance, a financial budget based on them is created. The process itself is much lighter compared to traditional budgeting and thus reducing the time spent on it (Bunce et al 1995; Hansen 2011).

Rolling budgeting does not differ much from traditional budgeting. In rolling budgeting, the time-horizon is constantly future-oriented, compared to traditional budgeting where the timeframe is 12 months. Within it, the company always has the next year planned ahead. However, in order to reduce the time spent on the process, it is a much lighter than with traditional budgeting, which requires the companies to determine its key performance indicators (Hansen, 2011; Ekholm & Wallin, 2000).

4.2 Previous research towards the research problem

Given the substantial amount of research on budgeting, it would be fair to assume that the research problem could solved entirely based on literary. However, each company has unique characteristics in their business and their managers' management philosophy, which have a huge influence on how the budgets are made and how they are being used. In his research (1978), Otley stated that

"The effectiveness of a management accounting system depends not only on the appropriateness of its technical characteristics to the particular organizational and environmental circumstances to which it is applied, but also on the way in which organizational participants make use of the information that it provides."

This is the reason why so many budgeting researches are focused on a chosen field of business and on a particular issue in that scope. If the research has not been a case study, the chosen companies for a field study are in most cases from the same industry. Covaleski's & Dirsmith's (1986) research as well as Abernethy's & Stoelwinder's (1991) were focused on hospitals, whose environment differs greatly from professional services company like the case company in this research.

Many researches are focused on one particular issue, such as budgetary control (Van Der Stede, 2001; Covaleski & Dirsmith, 1986; Bruns & Waterhouse, 1975; Frow et al., 2010) or on the inherent problems of budgets (Merchant, 1985; Lukka, 1988; Bunce et al., 1995; Hope & Fraser, 2000; 2003; Libby & Lindsay, 2003). One of the biggest challenges in analyzing the current situation in budgeting is assessing the objectivity of the previous research. As Ekholm & Wallin (2000) pointed out, many of the researchers pushing for beyond budgeting are working as management consultants, and could therefore have ulterior motives to push a completely new system. The same kind of problem is inherited to all budgeting research as the management philosophy affects to the researchers' way of thinking.

There are some challenges regarding the research on alternative budgeting systems. Since they still are so new concepts, their research results are somewhat theoretical as pointed out by Hansen et al. (2003). Thus, under these circumstances the researches can have different conclusions between a few years. In 2003 Libby & Lindsay criticize traditional budgeting and are compelled towards the beyond budgeting concept. However, in their research on the issue in 2010, their results are much more favorable towards traditional budgeting.

The previous research on budgeting are used to create a theoretical framework to this research. The previous research offers generalized issues on the topic, but they cannot provide a straightforward solution to the research problem as budgeting must be examined through its environment and users.

4.3 Theoretical framework

Analyzing the previous research, it seems that budgeting stands at a crossroads. The only way is forward, but on which path? Every company has unique requirements for their financial planning. It is not a simple choice between the four alternatives presented in this research. It can be one of them, but it can also be a tailor-made system, including characteristics from the other systems as well. Beyond budgeting could easily be discarded as a management trend, which has no chance against traditional budgeting in the long run. However, it might not be the case. If the management consultant jargon is filtered out from the beyond budgeting literature and the concept examined objectively, it could reveal much better practices compared to traditional budgeting and open up a serious debate on the viability of the latter one.

The table below illustrates the theoretical framework used in this research. It is based quite much on the themes of traditional budgeting. Target setting has been separated from performance management, with the target setting focusing on issues during the creation of the budget, and the performance management focusing on issues after the budgeting process has been concluded. The alternative methods are analyzed only on those aspects that are different to traditional budgeting. The concept of Beyond Budgeting is the most dissimilar, with the changes in nearly every aspect of traditional budgeting. Both Activity-Based and rolling budgeting focuses mainly on the changes in the budgeting method and process. In addition, as traditional budgeting has been receiving much criticism, each system's problems or issues are analyzed.

	Traditional Budgeting	Beyond Budgeting	Activity-Based Budgeting	Rolling Budgeting
Method and Process	X	X	X	X
Strategic Link	X			
Budgetary control	X	X		
Target Setting	X	X		
Performance Management	X	X		
Issues in the system	X	X	X	X

Table 1, the theoretical framework

5 Methodology

5.1 Research method

The research was carried out as case study for a multinational professional services company, on its Finnish branch. As the researcher himself worked for the company, no other companies were considered for the empirical part. The research was not, however, commissioned by the company, but rather proposed by the researcher.

The case company was told about potential benefits of the research. First of all the research could help to improve the budgeting process and help to find self-made problems in it, something that could be addressed locally. It was also hinted that the interviews would help to create a deeper understanding of business requirements for the controllers, which in turn would enable pro-activity and better analyses. The realization of these benefits will be found out in time.

The current situation as well as the future of budgeting depends heavily on management philosophy, something which is greatly affected by subjectivity. Everyone has their own opinion on what is the best practice. The case company's global structure prevents countries from adapting their own individual budgeting systems. But as the research gave the company suggestions how to tweak their budgeting system, the research clearly leans on constructive method.

The idea in constructive research method is to improve existing practices and to give the researcher a more active, somewhat intervening, role in the process. In addition of improving practices, constructive research also aims to draw theoretical conclusions from the empirical evidence (Labro & Tuomela, 2003). The goal is also to understand the theories-in-practice of the related people and the motivations for their actions as well as the ways in which they relate to the observed activities in the research field (Ahrens & Chapman, 2006).

Constructive research requires the co-operation of the case company and managers' willingness to participate for the research to be successful (Labro & Tuomela, 2003). The researcher had worked for the case company from March 2008 as a controller with one of the main tasks of overseeing the company's budgeting process. The controller role resulted frequent contact with the managers and gave an automatic insider perspective for the research. This proved to be critical as without the researcher's status as an employee of the company and in charge of its budgeting process in Finland, the case company would not have agreed to the research. Some interviewees said that normally they disregard all similar interview requests, even from their own subordinates, but chose to make an exception in this case.

The nature and focus of this particular research required qualitative approach, as the focus was on the managers' point of view. To ensure credibility, qualitative research involves continuous reflection on data as the research data is not completely objective, but rather aspects of the activities which are significant to the research. But in order for the research to actually contribute to the related literature, the qualitative method must acquire a balance between the chosen theory, methodology and the research field. By adjusting these issues, the research question and the collected data has to be repositioned in order to contribute something to the literature The positioning of data is imperative, since the collected data must be somehow referable to the theoretical concerns. If the empirical data does not support the theoretical data or vice versa, the results are of no matter (Ahrens & Chapman, 2006). However, the theoretical conclusions should not simply be reassigned to the actual research data, to ensure the support of the research data to the theory, since it would destroy the integrity of the research (Ahrens & Dent, 1998).

5.2 Data Collection

In order for the data collection to be effective, interaction between the researcher and the interviewees was required. Although structured questionnaires were a necessity, open interaction gives the possibility to learn from the interviewees' unprompted answers and actions. This underlines the importance of the theoretical framework, so that the field data does not overwhelm the researcher as well as creating a link between literary review and empirical evidence (Ahrens & Chapman, 2006).

As the research requires an insider perspective, the researcher's own experience and knowledge on the case company's budgeting system and process gave a sound foundation for the research. This also supported the interview process, since being an employee of the company and in contact with the management on a regular basis; it was easier to arrange the required interviews and to get the interviewed managers to open up on the topic. As budgeting is an internal process, much of interview data would be hard to get or completely out of reach for an outsider. The insider role also meant that the observation period could be counted a few years back, from the start of the researcher's employment with the company.

Data collection for the empirical results was carried out as a series of semi-structured interviews. In total 11 interviews were held, although one interview had to be cut into two due to time restraints. The people selected for the interviews represented each Service Line from the case company as well as the upper management. The interviews were held from April 2012 to October 2012, since there were some difficulties finding the time for the meetings due to business reasons, other work related issues and the holiday season. The interviews were held in Finnish, and the covering letter as well as the initial questions is disclosed in the appendixes.

The Business Development Leader, in charge of the company revenue planning process, was interviewed in April 2012 to give insight on how that particular process works, which was a minor sub-plot in the research. As each Service Line's business is different compared to the other Service Lines, their approach on budgeting also varies. Thus it was imperative to include each Service Line. The goal was to get two interviews per Service Line. The secondary voice from each Service Line was made subjectively among equals. The idea was that Service Line answers would not be based on one person's opinions. Basically, one Service Line received three interviews as globally Legal Services are deemed to be part of Tax Services, but in Finland it is considered to be its own independent service. Sadly, three managers did not want to participate to the research at all, thus all the Service Lines did not have a secondary opinion. These Service Line interviews were held in June 2012 and the last one in August 2012. The CEO and the CFO were interviewed in October 2012 to give a broader vision on the budgeting process and the use of budgets as a whole and to explain the ideology behind the processes.

The questions were built based on the issues presented in the theoretical framework. All interviewees received the questions beforehand with the initial request for an interview. Most of the questions contained prepared follow-up questions, which were depending on the initial answers given.

The empirical approach concerning the alternatives of budgeting was challenging. As the case company had not used any of the alternatives in the past, the questions relating to them would have been too leading. Most managers would have been unfamiliar with the concepts, although some ideas could have been received about rolling budgeting. As the alternatives had not been used by any of the respondents, their answers would have been based entirely on theoretical thoughts with no experience to back them up. Therefore, the question pattern only had some questions about issues relating to the alternatives' concepts, but not about the concepts specifically. The goal was to probe about the potential functionality of the alternative methods in the case company. Mainly, however, this part of the empirical research was based on the analyses by the researcher. This would not have been possible without the insider perspective.

5.3 Validity, reliability and generalization

In terms of validity and reliability, constructive research method has a few threats, mostly relating to the data collection through interviews and result analyses. First of all, the interviewees can have hidden agendas, which would affect their answers. The researcher could be biased and interpret the results towards the desired general outcome. There are usually limitations to the quality and quantity of the data available, which could exclude something crucial. Also, the interviewees could consciously mislead the interviewer and therefore their answers should be accepted without critical thought (Labro & Tuomela, 2003). In qualitative research, validity is more concerned on actually capturing what is initially intended and accurately reporting what was observed (Ali & Yusof, 2011).

There is also a problem that the results can be hard to separate from the particular research's context, since it is affected by the interviewees' opinion as well as the researcher's theoretical interests. Therefore, the research cannot be replicated, even though the same research would be conducted on the same organization by two different researchers (Ahrens & Chapman, 2006). This problem was taken into consideration when creating the interview questions. As the interviews were semi-structured, the question easily could have become leading towards the answers the researcher was hoping for. This was especially apparent regarding the alternative budgeting method questions. However, the issue can appear after the interviews as well, if the results are

Reliability of the research refers to the idea that could another researcher conduct the same study and come to the same conclusions. In qualitative research this does not apply, since the data is affected by subjectivity. Similar problems relate to generalizing the results. As opinions are not solid and are dependent on time, space and mindset, any qualitative research would be hard to re-produce with the same results. Thus the traditional criteria for validity, reliability and generalization are less useful when evaluating qualitative research (Ali & Yusof, 2011).

There are, however, ways to achieve precision in qualitative research. First of all is rationale for methodology and verifications, meaning that the qualitative method is arguably the most appropriate way to address the research problem and that there is consensus between the interpretations made and the meanings held by the interviewees. Secondly, the research should not rely solely on interviews, but also on observations and analyses. Thirdly, descriptions of the interviewees should be disclosed as well as interview questions and practices. And finally, descriptions of analysis procedures improve the transparency of the research. As the length of the field work has a substantial weighting, the immersion to the field research gives the impression of a deeper knowledge of the topic (Ali & Yusof, 2011).

As stated above, in qualitative research validity relates to actually capturing what was initially intended and accurately reporting what was observed. In these terms, this research succeeded. The subjectivity of the results cannot, however, be forgotten. The empirical results reflect the opinions of the case company's interviewees. As an employee of the company, the researcher's objectivity was somewhat affected, as own conceptions on the topic affect the point of view. The results can be considered reliable, regardless of the subjectivity. The interviewees seemed to answer the questions openly and fairly. Thus, it can be assumed that they would give the same answers again under similar conditions, since the opinions would surely be different if the business situation would change or the company's budgeting system would change somehow to one direction or another. The use of direct quotations was to tone down the researcher's own interpretations of the empirical results. There were no acknowledged limitations to the quality or quantities of the relevant empirical research data.

Basically, generalizing the results could be difficult, considering that this research was conducted as a case study. However, the same issues concerning budgeting occur in most companies. Therefore, the results strengthen the points made in the theoretical framework concerning traditional budgeting. Regarding the alternative methods, generalization is harder, since much of the empirical findings were based on analyses conducted by the researcher and the management was only asked about issues relating to them as it would have been extremely leading to ask questions about a budgeting system they had never used.

Relating to the precision of the research as a sign of validity in qualitative research, this research could have been done better. If precision is determined by three factors, this research covered two of these. Confidentiality issues prevented full transparency and disclosure as interviews were recorded, but the case company did not allow them to be disclosed in the appendixes. As budgeting is an internal process, some information was deemed to be confidential and could not be addressed in this research. It did not hinder the research as the research could be conducted regardless.

6 Empirical results

6.1 The case company

The company chosen as the focus of this research was a multinational professional services company, in which the researcher has worked since March 2008. The company wished to remain anonymous. It is based in 145 countries worldwide with the revenue of 22.9 billion USD and has approximately 152 000 employees as at the end of fiscal year 2011. However, it should be noted that the company does not have a global corporate structure where ownership, legal control or profits are consolidated at a central parent entity (Global Annul Report, 2011).

The oldest partnerships of the company were formed in 1849, although the current company itself was created in 1989 through corporate fusions. Finland's company originates from several small auditing firms, which merged in the late 1980's and then again at the beginning of the 90's with a local branch of the case company, thus opening international cooperation with the global company. The Finnish corporate name was changed to match the global name in 2002 (Company X website, 2012).

Globally the company is divided into four areas: Americas, consisting of both North and South Americas with 30 countries; Asia-Pacific, consisting of 21 countries in Oceania and the South-East Asia; Japan, focusing on Japanese clients and EMEIA, consisting of 93 countries in Europe, Middle East, India and Africa (Global Annual Report, 2011). Each area is divided into sub-areas, which are then divided into countries. Finland is a part of the Nordic sub-area, which also contains Sweden, Norway, Denmark and Iceland. Nordic is a part of EMEIA.

The case company's client serving operations are divided into four Service Lines and each Service Line (SL) contains several Sub-Service Lines (SSLs) (Global Annual Report, 2011). In addition, administration is its own Service line, called Core Business services (CBS), but since it is not a client serving business, it is usually separated from the business SLs.

As the company's historical foundation has been auditing work, Assurance has been the cornerstone of the company's business as it includes External Auditing services, Financial Accounting Advisory Services (FAAS), Fraud Investigation & Dispute Services (FIDS), Climate Change and Sustainability Services (CCaSS) and Accounting Compliance and Reporting (ACR). Assurance's business is to ensure that the clients' accounts comply with the required auditing standards and regulations as well as providing information to the stakeholders (Global Annual Report, 2011).

Advisory centralizes on management consultant services. It is divided into three sub-service lines: Risk, Performance improvement (PI) and IT Risk & Assurance (ITRA). As the SSL names imply, Advisory supports clients to protect their businesses, improve performance and enable change (Global Annual Report, 2011).

Transaction Advisory Services (TAS) provides knowledge and advice on how to manage capital and transactions. The financial crisis of 2008 forced a change in TAS strategy, and changed the business from business acquisition support to a wider focus of all aspects of the clients' capital agenda (Global Annual Report, 2011). It is divided into five SSLs: Transaction Support, Mergers & Acquisitions, Restructuring Services, Valuation Advisory Services and Operational Transaction Services.

Tax Services helps clients assessing, improving and monitoring their tax functions as well as provides understanding on tax compliance and reporting obligations. Tax services are divided to five SSLs: Business tax services, Human capital, Indirect tax, International tax services and Transaction tax (Global Annual Report, 2011). Although not noted as a SSL in the Global Annual Report, Tax services also contain Legal Services, which is counted as an independent business unit in Finland.

In the organization structure, below the SSLs are sub management units (SMUs). The lowest level in the organizational hierarchy is code block level, which basically is a combination of Service line, management unit (the office) and the SMU. For example, budgeting is done on a code block level.

Due the globalization of the organization structure, the significance of country border lines has been fading in the Service Lines, who are more and more co-operating globally and accountable to someone higher up in the global hierarchy. However, at the same time some of the old organization structures still exists, and Finland's distributable income is still its own.

Finland's company is aligned with the global structure, although it should be noted that up until the start of fiscal year 2012, Assurance contained only external auditing. On a global scale, Finland is a small country with 80.9 million Euros in annual revenue and approximately 600 employees. The company has 24 offices throughout Finland, although Helsinki is significantly larger on most metrics than the other offices (Company X Website, 2012). Even though this research is limited only to Finland's branch and budgeting, the global organization structure cannot be ignored as the whole planning process is centrally controlled. The figure below illustrates the organization structure in Finland.

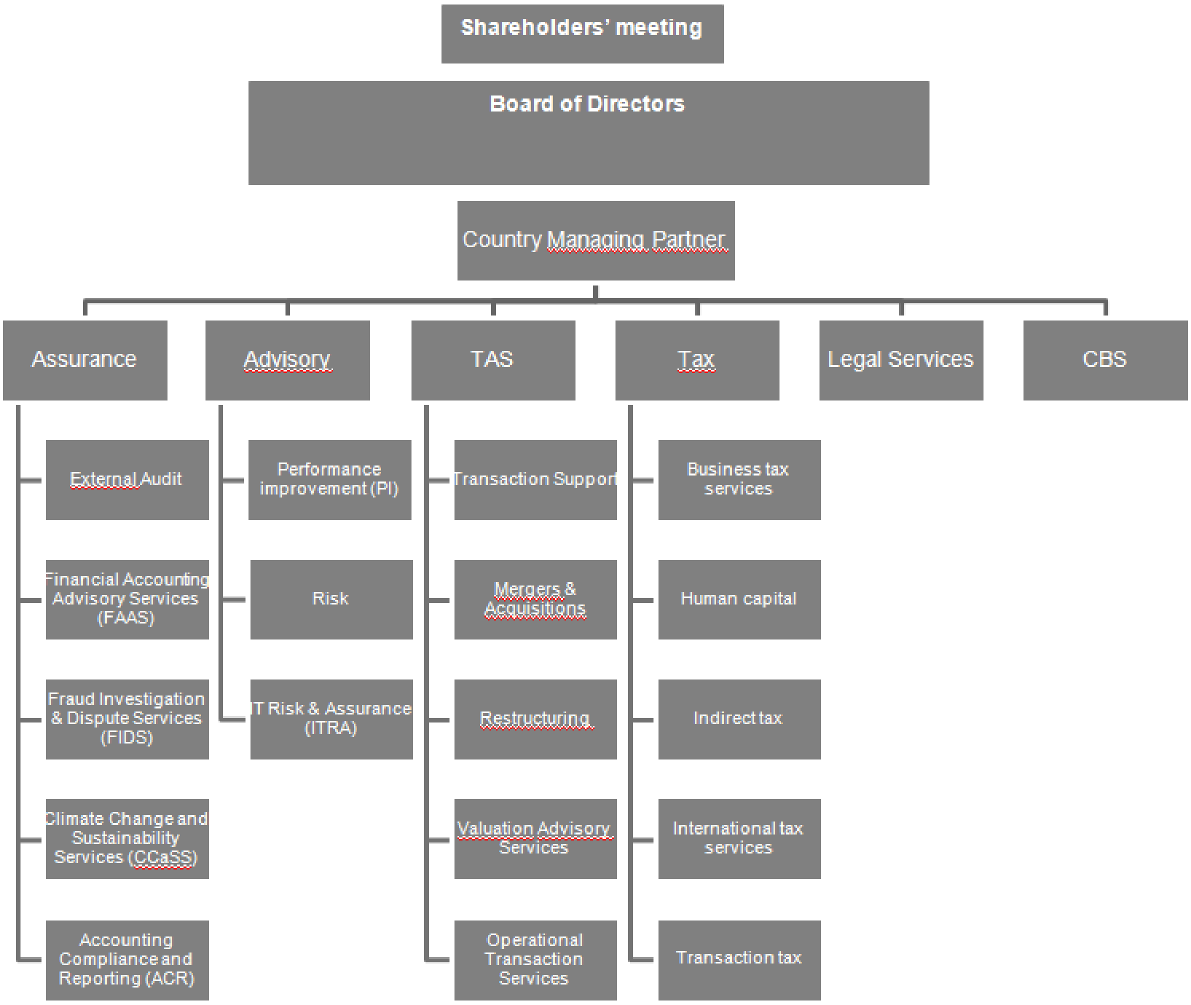

Figure 7, Finland's organization structure

One notable fact is that the company's fiscal year and monthly periods do not follow the calendar year precisely. Basically, the fiscal year is from July to June. The new fiscal year starts at the end of June or at the start of July, but the date varies each year. This is because the fiscal year is divided into periods of four or five weeks. Each quarter's first period has five weeks and the following two has four weeks. This means that the periods do not necessarily end on the last day of the month. Thus the fiscal year ends usually between June 28th and July 4th. For example, fiscal year 2012 started on July 2nd 2011 and ended on June 29th.

Assurance's role as the historical foundation of the company can be witnessed in the fact that most planning processes as well as the placement of the fiscal year have been designed to fit Assurance's business. Historically, this has been logical as Assurance's business has represented overwhelming majority of the company's overall revenue. However, the consulting businesses have grown fast and their share of the annual revenue is already over half of the total amount. Therefore the consulting businesses' requirements have to be accounted for with more weighting in future developments.

The company's internal communication contains several abbreviations as well as some concepts whose meaning needs to be explained. Below is listed the explanations for the ones' used in this research.

- **TNR** – Total Net Revenue. More or less the same as Revenue turnover. Frequently referred as Top-line.
- **Direct Costs** – The salary and related costs of client serving personnel
- **Gross Margin** – TNR-Direct Costs. GM% is calculated by dividing Gross Margin with TNR.
- **Indirect Expenses & Allocations** – All the costs not directly linked to client serving people or chargeable business.
- **Total Income** – Gross margin deducted by indirect expenses and allocations. The income left after operating expenses.
- **FY** – Fiscal Year, e.g. FY12 is fiscal year 2012.
- **FTE** – Full Time Equivalent. A person, whose weekly standard hours are 37.5 is counted as 1.0. With the same logic, a person with 30 standard hours a week would be 0.8.
- **Effective Utilization %** - Each employee has the same amount of available hours, in proportion to his standard hours, which is calculated by deducting holidays, vacation days and estimates for sick leaves and other paid leaves from the standard hours. The amount of chargeable hours to clients is divided by the available hours to create Effective utilization %.

6.2 Revenue planning

Revenue planning is a separate planning process done more or less simultaneously with the financial budgeting process. Basically it is budgeting revenue per client for the next fiscal year in order to help review investment needs and prioritize resources for account segments. Revenue planning process is done from a business development point of view and therefore the targets are set as stretched, the dream of what could be achieved in the best circumstances (Manager I).

As of 2012, there has not been any link between revenue planning and the financial budget. However, in the FY13 global budgeting guidelines, it was stated that *"Areas should leverage the work done on the Market Leadership Plans (MLP) to set revenue goals, while recognizing the stretched element included in those. Hence the MLPs should provide a direction for the revenue growth rate included in the financial plan."* To summarize, this meant that revenue growth rates in the budget should be based on the overall revenue plan targets, minus the stretch.

There would be some difficulties creating this kind of link between the two processes, even on a fundamental level. Revenue planning is done for clients, whereas financial budget is done for units based on where the people have been coded. One client, especially bigger clients, may generate revenue for several Service Lines, and its revenue could be impossible to divide realistically to SLs or even lower levels. The emphasis in the process is on Priority Accounts, the bigger clients, and remaining smaller clients, Core Accounts, are planned as a bulk. The logic behind this emphasis is the thought that through Priority Accounts the company should be able to increase its TNR faster than through Core Accounts (Manager J). Manager J continued that the company has had an *"unwritten rule of thumb that the revenue from Priority Accounts should grow twice as fast as the overall revenue"*.

The company's Business Development Leader, Manager I, did not challenge the Global financial budget guidelines, but stated that revenue planning is designed to review market segments and Priority Accounts and even with the stretched targets, there are regular review session and discussions on what has happened in comparison to what was planned and what happened the year before. Each Client Coordinating Partner receives a monthly report on their clients and revenue plans, but it depends on the Service Line how much they put emphasis on it.

The managers were asked about the possible connection between the revenue plans and the financial budget. The results were not positive. Each SL leader's answer held a highly negative view of the revenue planning process, e.g. it was referred to as *"the most childish process this global organization has got"*. They pointed out that the figures are based on 9 months of actual, which are projected to 12 months with simple calculation of dividing the figure by nine and then multiplying it by twelve, which does not have any level of realism. The Advisory and TAS SL leaders, managers C and E, also pointed out that their business is extremely difficult to plan accurately on a client level, since much of the revenue depends on active sales, thus the client base can change. In addition, in the FY12 revenue planning process the stretched growth rate limit was set to a minimum of +10% for Finnish revenue targets. The problem with this setting was that *"what is the point of asking individual people for their opinions, if we have already decided to put +10% on everything"* (Manager A).

These problems have resulted that the revenue plans are made to give the appearance that they have been made, because they are an administrative necessity. Thus each of the SLs tries to spend as little time and resources on it as possible. Thus, even though the managers receive reports about the revenue development compared to revenue plan, the reports are ignored, since the issues in the process destroy the reports' relevance.

The SL managers' point of view on the weaknesses in the process formed the basis on their answers about the link between this process and the financial budget. Therefore it was no surprise that the general answer was *"in theory"*. Also, none of the SL managers were able to see any kind of added-value on creating or forcing the link in the current systems. Thus, it can be concluded that the link between the revenue planning and financial budget is non-existent and would in any case be only superficial. However, the fact the idea was included into the FY13 global budgeting guidance indicates that in the near future there will be more emphasis put on creating this link and making it a reality.

6.3 The budgeting process and methods

The Company's budgeting system and process is based on traditional budgeting. Budget is made annually for the next fiscal year. Each year the budgeting is based on the instructions distributed by the Global administration. The process leaves very little room for maneuver for the individual countries as the process is highly centrally driven. Preliminary guidelines are usually received in February and a more detailed version in March. The actual process begins once the March figures are available. Therefore, most of the budget related work is done in April and May. The evaluation and approval process with minor changes continues to early July, before the budget is finalized for the new fiscal year.

The March figures are needed to create the Most Likely Outcome (MLO), which contains nine months of actual figures and three months of current year's budget. The MLO is used as the starting point for the new budget. However, the MLO is used more as a point of comparison, rather than an actual basis for the budget. Using the previous year's figures, the incremental approach for budgeting, at least indirectly as the prior year figures are used only as a point of comparison, does have logical foundation. This is most evident in Assurance's business, where the majority of the auditing work has been secured through client contracts in advance. Some other businesses are also recurring each year, like the filing of tax returns. These recurring services are also highly seasonal, e.g. much of the auditing work is done between January and March.

In the years before, the Company used its own excel templates for budgeting. Each unit's template was put to a shared network drive and access limited to those who had budgeting responsibility and the managers could complete them on their own. The excel templates were, however, extremely vulnerable for human errors. For the FY12 budgeting process, in the spring of 2011, a new global budgeting tool was brought into use, which changed the process. The access rights were restricted to controllers and the CFO.

When the budgeting process actually begins, the managers have a few weeks to produce the initial version of the next year's budget on TNR and its drivers; FTEs, charged hours, effective utilization % and TNR rate per hour, by filling in a data collection template. Even if just the first version, it should, nevertheless, represent the targeted TNR and growth for the next fiscal year. Once the managers are ready, they return the information to the controllers who fill the figures into the budgeting tool, completed with payroll information and centrally handled costs. CBS functions are asked to plan their own activities and costs for the following year. A major part of the indirect costs are planned in the functions, meaning that e.g. marketing function creates also the SLs marketing budgets. The SLs do have a say-so on these costs, but the cost responsibility should be on the function.

The first part of the process usually takes roughly three to four weeks, after which they are moved on to evaluations and acceptance rounds. The budgets are first evaluated on a Nordic SL level. If the figures appear acceptable, the Nordic budget is presented for EMEIA's acceptance. But the budget is always adjusted somehow, as the revenue expectations might be considered too optimistic or spending too high compared to revenues or both. On a peculiar note, Finland's executives usually evaluate Finland's budget, per Service Line and as a whole, after it has been submitted to EMEIA. This happens, because the focus is on the SLs and not so much on individual countries. For example, the adjustments required by EMEIA are always focused to the SLs on a sub-area level. The SL executives then have to decide how distribute the adjustments to the country level.

6.4 Strategic Link

In theory, the budget should be a part of implementing the company's strategy**.** In the case company, this has not been completely transparent. One can assume that the strategy has been taken into account when creating the annual plan, but how much and in which way, has remained unclear. Regardless, each interviewed manager said that there is a link between the strategy and the annual budget, although the strategy naturally also contains items that cannot be implemented through the budget, such as quality and expertise. Manager J said that there used to be a more direct link. However, as EMEIA expects realistic estimates, the annually targeted strategic growth cannot be derived directly from the strategy to the budget, but needs to be toned down. Manager K noted that this has created a dilemma if the targeted growth in the strategy is significantly different than the budgeted growth and regardless of the required realism, Manager J should challenge the SLs on why do their budgets differ from the strategy.

In the case company, growth is one of the most important strategic goals; to achieve market leadership. Therefore, the budget should contain targeted growth in TNR. In recent years, the emphasis has moreover been in profitable growth, meaning that the people recruited to help achieve that growth are cost-effective; Gross Margin should improve faster than TNR. The ideas of growth and profitability as the implementation of strategy are brought up in each manager's answer.

There are also more detailed aspects of strategic implementation in the budget. Manager A from Assurance said that they could have growth targets regarding publicly listed company clients. That has to be taken into account as they require more experienced partner resources as the competition is much intensive. This, on the other hand, would not be that simple issue in other Service Lines. In the consulting business, new bigger clients require much work, and in most cases also lower margin work at first in order to build up trust and a lasting business relationship. This kind of lower margin work can be considered a strategic investment, but at the same time they are harder to justify in a Service Line budget, since the financial figures only show poor margin, not the possible strategic actions behind it. This was especially underlined by Manager F, the leader of Tax Services. *"Our goal is to emphasize the bigger clients for Tax* *and develop their global accounts, not just Finland. Therefore it does not make sense that someone else from EMEIA or global demands us to improve our Margins and utilization rates at the same time."* The challenge is that the people actually reviewing the budgets only look at the budgeted figures and their comparisons, but usually overlook any strategic initiatives, affecting the numbers and resulting to a situation where a manager is required to try to please both parties at the same time, even though investment explanations should be included in the commentary with the budget submission.

Both interviewees from Advisory Services, Managers C and D, said that there is a problem with the timing of the processes. Traditionally, the budgeting process and strategy update are being done at the same time, which makes it harder to fully implement the strategy into the budget. Manager C, the Leader of Advisory Services, said that usually the budget is even completed before the strategy. The optimal way would be to first finalize the strategy update and only after that to finalize the annual budget. Doing the processes simultaneously forces the managers to put something into the budget and then later on to think what would the strategic actions budget-wise be (Manager C). Strangely, none of the other managers mentioned anything about the timing of the processes.

Even though the managers conclude that there is a connection between the strategy and the budget, all of them also point out that more important implementation of the strategy is handled via personal target setting and annual development conversations which are a more efficient way to direct behavior strategy-wise. Manager F stated that *"Generally, strategy aims to do something differently than today, which requires the people to do something differently"*. That is why much of the strategic change should be handled in that personal target setting and not via the budget as it is not a great medium for change as it depends so much on the stability or status quo of the business. Not so much of doing things differently.

6.5 Budget target setting

6.5.1 Creating the objectives

Regardless of the Service Line, each budget begins with the thought of what are the goals for the next fiscal year, usually meaning how much the targeted growth is. This goal is not set as stretched but should represent what is the realistic target. It does not mean what is the estimated realistic outcome for the next fiscal year, rather underlying that it is a target, but reachable

(Manager K). There is a challenge in the target setting as the growth targets should be aligned with the three-year strategy plans, but at the same time they should be realistic.

Assurance, whose business is much more stable compared to the other SLs, puts more emphasis on the ongoing year's outcome when preparing the next year's budget. First they estimate the Most Likely Outcome for the current year and then analyze whether they have had any major client losses or gains, which might affect the next fiscal's results. This analysis is then adjusted to the targeted growth for Assurance (Manager B). Both managers from Assurance felt that budgets should be challenging, but nevertheless reachable. Otherwise it would turn against itself. However, they did have different thoughts on how challenging the budget should be. Where manager A believes that the budget should be an estimated realistic target, manager B says that *"the budget should be target-oriented, but the target should not just be what is thought to be reachable at the budgeting moment. Budgets should include a clear target setting"*.

The consulting SLs have to rely significantly on assumptions and predictions on market conditions. The budget targets are derived from the SL's three-year market leadership strategy plan, which is counted backwards to one year; what is the growth ambition for that year, and then a reality-check is made (Manager C) based the current market conditions and prospects to the provided services (Manager E). The managers do admit, however, that there are some challenges. *"Ideally, the budget should be based on how much of the services we have can sell in the market, to have some kind of link to reality. Sadly we are doing it a bit the wrong way around. First we think of how much we have to raise our salaries and then analyze how much the TNR should grow to justify those pay increases. We do not have some brilliant analysis connected to the clients buying power. You just hire a smart person and he will find chargeable work"* (Manager F). The key is to find an in-between solution between the existing resources and the objectives. If the budget is prepared solely on existing resources, real growth is never achieved. But if the budget is based only on targets and ambitions, there is no realism (Manager H). The strategy cycles makes this a bit challenging, though. As the budget is built from a resource perspective, these strategic actions usually show as increases in FTEs or strategic recruiting; hiring people with a special expertise to start a complete new service (Manager C).

The managers seemed to promote genuine targets, rather than careful realism. Manager C noted that *"above all, budgets should be a realistic reflection of the strategic plan."* Strangely, Manager F gave contradicting answers in different parts of the interview, also promoting absolute realism. However, Tax's approach on budgeting has been clearly target-oriented in the recent years. Manager G, a sub-service line leader in Tax, said that the budget goes something in-between, meaning that the budget should be realistically challenging. *"From the employees' point of view, I feel the budget is more of a motivational tool, but for me the planning aspect is more important."*

The achievability of the set targets is extremely important. *"In an ideal world, achieving the targets is not obvious, but possible, meaning that the achievement does not require something completely extraordinary"* (Manager E). In a performance sense this means that normal performance just reaches the budgeted target and then a performance above normal succeeds the targets. Managers C, D and H said that the people in the company are very target-oriented and can calculate the figures themselves, and would know if the set targets are not realistic. They need the targets to get the feeling of success. Manager F noted that *"this orientation requires people to have some kind of measurement system, which has to be academically created and not just made up, to make it credible."*

Each SL does use sandbagging in the budget, or at least small buffering. In the SL leaders mind, the Service Line level target is what matters. As the budget is prepared bottom-up, some SSL's or offices' budget can contain significant growth, even for logical reasons. When consolidating all the different units, the SL level growth can look quite drastic. To create some kind of a buffer, just in case, each SL adjusts its biggest unit's targets so that the SL level figures look sensible. Manager A commented on this issue by saying that for example *"A SSL budget was unrealistic for the upcoming year. But since it was given to us from above, we had to accept it. Therefore we had to adjust other units to make the aggregated total look reasonable."*

The evaluation rounds in the higher levels of the organization usually result to adjustment demands to revenue, costs or both. Even though this forces revision to their own view on the budget, the managers seem to accept this issue calmly. *"I can understand if we are challenged to plan more growth"* (Manager A). *"We try to create a challenging budget ourselves, but if EMEIA would demand us to put an extra 10% into it, we do it humbly. But then again, it is difficult to say how seriously we would take the budget afterwards in that case"* (Manager C). It is clear that the managers have concluded that it is pointless to fight against the higher levels and just accept the demands. TNR could be demanded to be reduced in order to make a more careful budget. However, at least Advisory and TAS stated that then they just make their own shadow-budget to which they adjust personal targets. Then the official budget remains just an official target, but they compare the actual outcome mostly to their own unofficial objectives (Managers C, D & E).

There has been a significant change in the overall management philosophy regarding budgeting in recent years. Historically, Finland's budgets were highly target-oriented and before the globalization process, the budget targets were set as stretched. As a result of the global harmonization of processes, the philosophy has changed, since globally the budget is thought to be primarily a forecasting tool meant to produce realistic estimates of the outcome, rather than used for target setting. As the change in the individual management philosophy is slow, the two ideas are in conflict with each other in the Case Company. However, Manager J said that he considers it to be *"rather lifeless to have a guaranteed budget, which does not inspire growth."* On the other hand, he reckoned that the reason for this change is a result of the increased economic uncertainty. Thus, overly optimistic budgets should not be created, since all too often if the top line fails, the planned costs are realized even so. Nevertheless, the managers' answers indicate a clear leaning towards target-orientation, therefore the idea of *"realistically challenging"* was brought up numerous times.

6.5.2 Accuracy of the budget

The accuracy of the budget does not relate to as much how well the SL can achieve or succeed the budget targets year by year, but rather to how well the development of the business and in the market can be predicted over a year ahead. This is something that separates the Service Lines from each other. And as the budget is usually prepared in early May and extends to the next year's June, the managers need to predict business developments 14 months into the future. Additional challenge is that EMEIA expects accurate estimates. Manager K stated that *"naturally it is not good to fall severely behind the budget, but it is not considered to be a rosy performance if the outcome is well above the budgeted target as that too indicates a rather careless business management."* To support the budget estimates, the company can use macroeconomic data about the developments in Finland, Europe and the world, which give indications on market developments in the near future (Manager J).

Assurance's business is the one which is the most stable. Much of the revenue for the new fiscal year has already been agreed with clients during the budgeting process, meaning that they have client contracts ready. They know who they will be working for, when and roughly at what price. Assurance's business and budgeting is also supported by the company's fiscal year, from July to June, as well as the related budgeting process itself, which is done after the Assurance's busiest season in each year. During the budgeting process they already know most of the major client losses or gains, which makes it easier to plan for the next year. The hardest thing is to figure out how well are they able to compensate client losses, as growth would still be expected. However, Manager A said that *"people who worked for the lost client quickly find something else to do, so client loss does not lead to an overcapacity in resources straightaway"*. Manager B aligned with this answer, saying that *"the normal auditing is quite accurate to predict, it is only the newer services, FIDS and FAAS, which are a bit harder to forecast."* But as of 2012, their share of Assurance's revenue is still a minor one.

In the other Service Lines, the level of volatility is completely different. In Advisory, their accurate forecast lasts one quarter as Manager C said that they are *"constantly three months away from bankruptcy."* TAS's situation is somewhat similar to Advisory, although their level of volatility is even higher. The budget, nevertheless, usually remains their realistic plan for the fiscal year and to which they measure themselves and are measured to, but the budget is not that valid anymore on the fourth quarter of the fiscal year, since the market conditions can change drastically in that time. Manager D noted that during the budgeting process, they might know of engagements which are taking place in August to September, but henceforth all is unknown, whereas Manager E said that they have no chance of predicting an accurate budget based on knowledge. They just have to make assumptions, just like when starting a new service. This has become much harder ever since the 2008 financial crisis cleared the market predictability. Manager E said that in this reality he is surprised how well the forecasts have succeeded in the last four years. Compared to Assurance, Advisory and TAS have no advance knowledge on for who are they doing the work for, emphasizing the importance of sales during the fiscal year.

Tax Services is much closer to Assurance in the sense of business stability. Manager F reckoned that he can predict with 70 percent certainty if he knows the FTEs for each month. Naturally, there is some turnover in FTEs over the fiscal year, but usually not significant, so his estimate can be accepted. He stated that just the available resources would bring 70 percent of the planned TNR as the *"people will find chargeable engagements to put their hours, even if we have no knowledge on where during the budgeting process"* (Manager F). Manager G seemed to support this, saying that he can usually create reasonable accurate budgets, if the market develops without major changes.

Legal Services' problem with the accuracy relates mostly to other Service Line's engagements. Manager H said that in some way, her unit is a supporting function for the others, a component to help some other project to go forward. If they are *"this reliant to other SLs to sell the work, it is harder to plan accurately."* When the engagements are not a result of their own selling, they have no proper knowledge on what happens and when. The only way to improve the level of accuracy is to increase own sales. On the issue of predictability, Manager H said that Legal Services are *"roughly one month from bankruptcy. A bit longer than TAS, but in the vicinity."*

Even though especially Advisory and TAS have to rely much on assumptions in their budget, all in all, the Services Lines have been able to make fairly accurate budgets. The level of accuracy was analyzed from the outcomes between FY07 and FY12, the overall company accuracy illustrated in the figure below. The dark grey solid line represents the TNR budget accuracy and the yellow dashed line is the Total Income budget accuracy. On the company level, the variances to plan in TNR have been only a few percentages one way or another. FY09 resulted in a significant drop as the financial crisis hit in the fall of 2008. However, Assurance has balanced much of the variances, since the changes from year to year in the consulting business are much greater. On the other hand, the variances in the Total Income level are much deeper than in TNR, although the graph follows the same kind of pattern. This is expected, as the absolute figures in Total Income level are much smaller than in TNR, and are thus more easily fluctuated. This is most evident in FY11, where a greater TNR outcome raised the Total Income level notably high, even though costs rose as well.

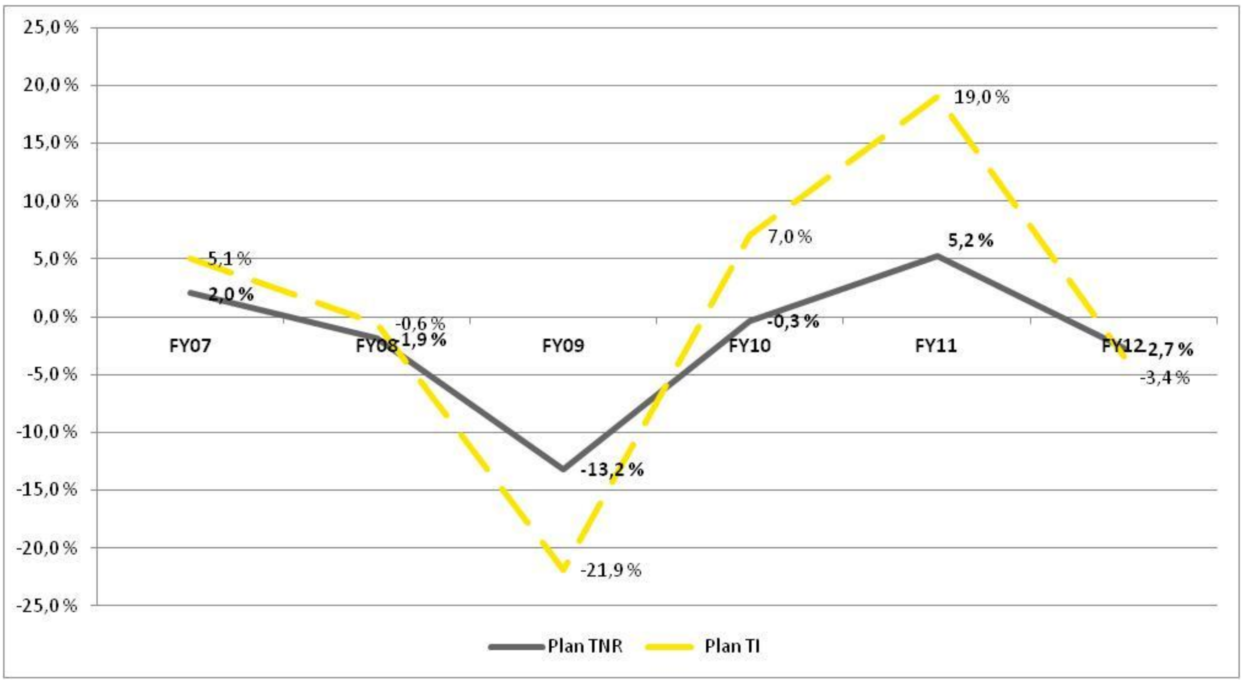

Figure 8, the accuracy of the budgets

6.5.3 Time spent on budgeting

One of the major criticisms towards traditional budgeting has been the amount of time it takes away from the managers' profitable work. In some estimates up to 30 % if both the actual budgeting process and budget related work throughout the year is combined. However, the case company's managers' opinions were positive in this matter. None of the answers concerned other budgeting related tasks, e.g. variance analysis throughout the year. This could be because they are considered to be a part of the administrative burden that comes with the role. After all, performance management and control are not necessarily dependent on budgets, but can exist without it.

All the managers noted the development in the process as budgeting used to take much more time from them compared to the current situation. Manager A said that historically Assurance handled much more of its own budgeting, since their personnel consist of accounting professionals. Nowadays they focus only on the major lines and challenge the outcome if it does not look logical. All the other managers were more or less on the same page. Manager C concluded that this is where the process works, business management focuses only on the essential business parameters.

Only some of the managers were able to give an estimate on how much they spend on budgeting, most of them just commented that it is *"not too much"*. Manager B, who handles much of Assurance's budgeting, estimated that the whole process, including the few budget related meetings, takes approximately up to 15 hours. Manager F also thought of the issue in general and said that *"all in all the process is too heavy as even the controllers time could be spent on something more useful, such as profitability analyses."* Regardless, the managers answers clearly state that budgeting does not take their time excessively, as the process has been streamlined mainly to the Finance function's responsibility.

6.6 Budgetary Control

The budgetary control can be split between revenue and cost control. TNR and its related drivers, such as effective utilization %, TNR rate per hour and FTEs are monitored through weekly reports. The costs are updated to the system only once a month, so they cannot be analyzed on a weekly basis. The controller function carries on a more detailed analysis and makes sure the figures are correct. The controllers also have a responsibility to the Service Lines to analyze and report on their figures monthly. It depends on the SL and the managers in question, how much they want to know and on what level of detail. But, regardless of the controller action, the managers conduct their own analyses on the figures as well.

In their own budgetary control, the managers focus on TNR and its drivers and most of them on also Gross Margin. Each of the managers reckoned that the TNR is the most important figure they monitor. They also analyze the drivers affecting TNR, such as effective utilization % in order to understand the variances in the TNR. Most of the managers said to focus on KPIs, but as TNR affects almost every KPI metric, it is analyzed much more thoroughly than any of the other lines. Also, as there has been an emphasis on profitable growth, the managers have become more and more interested in Gross Margin as well. Basically, the managers can influence the direct costs; adjusting bonus accruals or putting a halt for recruiting. But they do tend to stop on the Gross Margin line as the major share of the indirect expenses are recharged or allocated from CBS, costs to which they have no control or grasp at all.

Both manager A and B from Assurance noted that they manage the TNR variance-analysis through clients, looking up explaining factors from client revenues, e.g. if there had been some one-off work done in the previous or the current year, that might have affected the figures or their comparisons. Due to the nature of the business, the other SLs cannot be managed through clients, as the same clients do not necessarily have work done for them every single year. Therefore, they emphasize on effective utilization % on their analyses to *"understand what causes the differences and then try to derive actions from those conclusions"* (Manager C). Manager D supported this view as *"being 5 % below the plan is nice-to-know information, but the real issue is to understand why the effective utilization is so low and what can be done to correct the situation."* However, Manager E noted that TAS has traditionally been focused only on TNR and that their monitoring on effective utilization levels has not been that active in the years before, but they are trying to correct the situation. They do not require much analysis on the figures, as they are quite a small group of people and tend to know the reasons for the variances. Manager E noted that they may not even have a clear reason for the variances; it may be just because they have not been able to sell as much they had estimated.

However, the differences in the volatility of the businesses between the Service Lines can easily create a dilemma, where Advisory's and TAS's markets conditions could change rapidly, but Assurance could remain somewhat unchanged. Manager C noted that sometimes they have to concede their TNR targets, but then they emphasize Gross Margin and Total income, with the idea that if the top-line fails, the bottom line must hold. TAS on the other hand, utilizes its own most likely outcome, a high-level estimate on TNR, which they update when needed. In addition, Manager D said that they are constantly monitoring on how much they have sold chargeable engagements for the next six months. This forward-looking monitoring gives them indications on the market conditions, reducing the level of surprise when the conditions change.

In the event that the budget proves to be faulty or invalid, the managers quickly turn to base their analyses on the prior year figures. However, even this can become problematic if the market conditions change much in a short time, making the prior year figures incomparable. This was the case in FY09, when the financial crisis of 2008 began. Manager F noted, that the financial crisis created an exceptional situation as the parameters, on which the budget had been created, failed. The managers said that in that case or in similar situations, the best solution would be creating an outlook or an updated budget. Manager J said that in the related circumstances, the other Nordic countries can be used as benchmarks, especially Sweden, whose business is quite similar to Finland's.

Despite the differences between the services, each SLs internal control seems to run more or less the same way with similar focus. The emphasis is clearly on TNR and its drivers. The SLs' analyses focus on understanding the variances, since correcting the issues regarding those TNR drivers could affect the outcome in the following months.

6.6.1 Type of budgetary control

Theoretically, budgetary control can be divided into diagnostic and interactive control. In interactive control, the results are discussed regularly whereas in diagnostic control the focus is only on negative variances, which always require explanations.

The managers emphasized the importance to analyze and discuss the results, regardless of which way the variances point out to. Manager A said that positive variances need to be understood same as the negative ones, even if just to make sure that there is not anything wrong or faulty in the processes. Client engagements can experience significant write-ups or write-downs, meaning that the reported generated revenue from engagements does not match to the sum that can be billed from the client, which can have a huge impact on the figures. Even a positive variance can have recoil somewhere else later on. *"Therefore it is important to understand immediately, is this just a stroke of luck, a one-off case or a signal of some permanent improvement"* (Manager C). Discussions on the results can help to understand, why a SSL is more effective than the other ones or why one Nordic country is doing better than the rest. Continuous discussion on the results helps to create benchmarks within the company itself.

Manager F seemed to have a completely different approach on the issue. He said to focus on negative variances, since the budget is more or less the target promised by SSL leaders, which they genuinely are trying to reach. *"But then again, when some unit is doing well, everything is just going as planned and there is not much to discuss at that point, just thanking them"* (Manager F). However, his response most likely relates to the fact that negative variances require more attention, and not that positive variances could be ignored. Legal services fall in between the two types of control. Especially, the utilization levels are monitored on a monthly basis and people with low effective utilization % rates are analyzed in more detail on where they are posting their hours to. Those employees are then asked to correct the issue, if possible, by their closest supervisor (Manager H).

The results indicated that the case company did lean more on the interactive type of control, although the negative variances do receive much more attention than the positive aspects as the negative issues usually require actions.

6.6.2 Expense Control

Expense control is probably the most difficult to conduct and almost impossible for the managers. Much of the indirect expenses are handled via the CBS functions, such as marketing or HR, and then recharged to the SLs who spent the costs. The idea has been that the functions are responsible for the costs that relate to their function, e.g. education is an HR cost. Although the costs are then recharged to the related SL, the system has removed visibility and control from the managers, making it difficult to practice effective cost control. In addition, as the case company is global, an increasing amount of global costs are allocated to the countries, which increases the share of non-controllable costs in the total cost pool. Budget-wise it creates a challenge, since they form a part of the cost pool that cannot be reduced, leaving fewer options for possible cost reductions. Much of the expense control falls under the responsibility of the Finance function, analyzing monthly figures and variances and reporting the findings to the executives. The functions receive monthly reports on their expenses, and conduct internal control on the costs compared to the budget.

One challenge the company has in its expense control is to get the functional leaders to really take full responsibility on their costs. Manager K noted that so far their level of control and responsibility has been a bit vague. He continued that budgets easily create an appropriation mentality, meaning that *"if you do not spend the money you have budgeted this year, you would not have the same amount in use for the next year, which results to spending the money just to spend it."* In addition to the budgeted amounts, in each fiscal year some amount is spent on unseen costs, which are easily then added to the next year's budget, slowly increasing their cost pool. Regarding this issue, Manager C said that basis for the functional budgeting should always be that they start from zero, and they would be required to justify the need for every single euro.

The SL managers noted that they only can really control education costs, where the invoice acceptance still goes through them, and non-client related travel costs, which incidentally relate mostly to education events. Thus, if the SLs want cost savings, they can stop all the education participations and enforce a stricter travelling policy. But other than that, they have little control over the indirect expenses. However, even education cost control has fewer options, as the Nordic and EMEIA cooperation forces the countries to have joint trainings, which naturally are much more expensive than to have the trainings locally (Manager A). Manager B also noted that in reality they cannot refuse from all the training as the business requires it.

As for the company's overall expense control, the managers were a little dubious of its effectiveness. Their biggest challenge is to understand which cost originates from Finland, which from the Nordics, EMEIA or Global. With the global costs, there is also the problem that the transparency in them is extremely limited and the countries or even sub-areas have little possibility to challenge them (Manager A). The system of functions owning the functional costs has created confusion on who actually should control the costs, the function or the SL who ends up paying for it (Manager E). Manager E considered that the current system creates too many people responsible on the same costs, but with different point of views on the costs as his perspective, TAS's total income level, is not the same as e.g. marketing's.

The results showed that the case company's expense control is somewhat problematic. The SL managers have little possibility to affect the indirect costs, so they do not pay that much attention to them. Due to the on-going globalization process in the company, the share of global cost of the overall cost pool has been consistently rising. The accountability of the costs is a bit blurred as the functions handle the costs, but the SLs pay for them. In addition, the level of transparency in the initial budget and the actual costs has been too vague so that the SLs might not even know what has been planned for them and what they have been paying for.

6.7 Performance Management

Budget related performance management in the case company connects to budget responsibility, personal target setting and communication of objectives to the employees. Performance management is greatly affected on how the target-oriented budget has been set; is it just a realistic estimate on the fiscal year's outcome or have the targets been set genuinely challenging. The managers in the case company seemed to favor challenging budgets (see chapter 6.4.1.), but the targets had to remain reachable and the stretched element was left to the revenue planning.

As perhaps the most important annual objective in the case company's budget is growth, it could be assumed that an outcome where the budgeted targets are not reached, but TNR still grows compared to prior year, is acceptable. The SL managers, however, felt on a united front that the fiscal year cannot be considered successful if the budgeted objective is not achieved. On the other hand, Manager G noted that simple growth would bring at least some comfort, although not much. However, both Manager J and K said that in the end the outcome needs to be benchmarked to the major competitors. If the case company has grown faster than they have, the fiscal year can be considered successful in those market conditions. On the other hand, if the budget is achieved, but the growth rate is lower than the competitors, it can be determined that a better outcome could have been achieved.

In theory, the budget is seen to support the decision-making process by bringing a financial basis for business decisions. The managers did not fully support this idea. It was noted that the related idea most likely links to investment decisions, something that are not that apparent in a service company. Every manager, however, connected this idea to recruitment, which is the most important investment decision a service company can make. Manager A added that one year is quite a short time to make changes and recruitment decisions are long-term decisions. Panicked recruitments can distort the FTE pyramid; people expect promotions after a certain period of time, packing up personnel in higher ranks, which is not cost-effective. A completely dissenting opinion came from Manager E, who did not see the link between the budget and recruiting. They might get a chance to recruit someone with a new kind of expertise, who can open a new service for them; something that was not thought at all during the budgeting process. Manager E saw the budget's purpose mainly in target setting and performance management through it. Manager E's opinion could be linked to the general, mindset within the company, especially concerning the cost side, that the budget is more of a plan for the fiscal and less of a restriction. Decisions are done regardless of the budget, if needed.

6.7.1 Budget responsibility

The managers are accountable for their budget, but usually not for every figure. Budget responsibility is linked to budgetary control, meaning that managers monitor mostly on what they are responsible for, usually TNR and Gross Margin. SL leaders need to look at Total Income levels as well, although the main focus of Total Income is on a country level due to the non-controllable elements in the indirect expenses. Advisory seemed to be an exception in this, as Manager C said that their SSL leaders are responsible only on TNR and its drivers, but not on Gross Margin, which is relevant only on a SL level.

In general, the unit leader is responsible for the unit's budget in a hierarchical order upwards. On the Service Line level this becomes divided. The main responsibility still remains to the CEO in Finland, but at the same time the SL leaders are held accountable to the Nordic SL leader. Only Manager A raised the Nordic SL leader as his main reviewer and the CEO as secondary, which was interesting since Assurance has traditionally been the most country focused business. The other SL leaders acknowledged the increasing role of the Nordic organization, but did not yet rate it above the Finnish CEO. Manager J himself, the CEO, noted this complexity as one of the challenges in the global integration process, where the old management structures are still in existence, but at the same time the new structures are brought into use, meaning that managers are responsible to a few different people at the same time.

On paper, the SLs are responsible to the Sub-Area and the country dimension is secondary; in reality this is not the case. Regardless of the increasing global cooperation, the genuine responsibility remains within the country. The responsibility focus remains in the country organization as long as the profit pool remains there, since the dividable amount of money below the bottom-line is coming solely from the country organization (Manager F). The change would be a huge step as it would require a change in the partners' earnings principles (Manager D).

As the budget is thought to be a target for the fiscal year, managers are held accountable for the outcome. The reaction process to poor performance on a unit level can be a bit difficult; however, as many SSL leaders and all SL leaders are partners, owners of the company. Therefore demotion is not really an option, but changes in leadership are possible. The term normally used for this leadership circulation. Falling behind on the set objectives on one particular year affects directly to the manager's in question annual bonuses. Partners have much more flexible element in their pay than regular employees, so underachieving can have a significant impact on their yearly compensation.

The reaction process to a poor unit performance is somewhat similar in all the Service Lines; one year affects the bonuses and a recurring poor performance leads to changes in leadership if the outcomes are nowhere near what was expected (Manager A). Then the current leader is transferred to another post and a new leader is brought in (Manager B). Advisory seemed to a bit more strict in the reaction process, as Manager C noted that they *"expect a course of action for even relatively small variances. With the related actions, the performance should improve, and the progress is then monitored."*

The reaction process is not usually very fast, since hasty decisions are being avoided. The performance is first analyzed to determine any outside factors affecting the outcome and to remove non-controllable elements. But if there are no outside factors, reaction can be really swift (Manager H). Normally, however, the reaction is slow, sometimes too slow, in hindsight. Underachieving can happen for multiple years before it has been reacted to. According to Manager E, it is not a question of not been noticed or measured, but rather that the explanations have too easily been accepted. But the explanations can be valid as it is easy to draw a conclusion from poor outcome to poor performance, even though the actions have been right. It is important to react to what is actually been done and not just to the financial figures indicating poor performance. For example, winning a major client can affect the short-term figures as the build-up for a new business relationship usually requires lower prices, which then show up in the financial figures (Manager F).

The results showed that the managers are held responsible for their budgets, but due to the existence of old and new organization structures, they are accountable to a few different people at the same time. The reaction process to poor performance is difficult, because most of the unit managers are also partners in the company, reducing the number of possible actions.

6.7.2 Link to personal target setting and bonus

Personal level target setting in the company is done from August to September, in the early stages of the new fiscal year, as the summer months do not offer a realistic possibility to this process earlier, since most of the employees are on vacation. These set targets are then used at the end of the fiscal year in personal level performance evaluations.

Achieving the SL's and country level budgeted objectives is important even on an employee level as the bonus pool depends on the achievement of the set goals. Usually the bonus pool is based on SL TNR growth, SL profitability in terms of Gross Margin and the country level Total Income. The threshold values for each category are based on the previous year's performance and the budget is only a milestone illustration. Thus, achieving the personal level targets only affects the employee's annual performance rating. The rating affects the salary multiplier for the bonuses, but the size of the bonus pool depends on the SLs bonus plan and the achievement of its targets. Therefore, achieving all of one's personal level targets does not guarantee the maximum level bonuses, if the units overall performance has been poor.

The clarity of the link from the budget to the personal targets depends on the employees rank. The link is clear in the higher ranks, but in the lower ranks it disappears. Some basic budget related assumptions appear in everyone's targets, but they are not really visible (Manager B). The unit managers' targets, those that have the clear link, contain the budgeted TNR target and profitability for the unit managers (Manager A). However, Both Advisory's and TAS's target setting is complicated by their target-orientation. The budget is created in May and the growth target in the budget is usually based on the most likely outcome of nine months actual and three months plan. If the final three months go exceptionally well, the result will be a more moderate growth target in the budget as the point of comparison changes. Since they have wanted to have ambitious targets, they cannot use moderate growth targets for personal level target setting. Therefore, in those cases they have created their own shadow-target to which they align their personal level target setting (Manager E).

In addition of just moving the TNR targets to SSL leaders' personal targets, there should be a link from the TNR targets to the individual level targets, where it is reflected as an effective utilization % target (Manager D). Manager G was able to offer a more insight on this, saying that once they know their official and final TNR target, they start to plan their use of resources in more detail and setting up utilization % targets, thus distributing the budget to every level of the organization.

There is a link between the financial budget and the personal target setting, but the visibility of the link depends on the employee's rank; the higher the rank and position in the company, the clearer link to the unit's budget. In order to avoid negative aspects of the use of the budget in this process, the budget is not the sole factor in setting up targets. Each employee's targets and evaluations are based on the balanced scorecard. The company's balanced scorecard is divided into four sections; Market Leadership & Growth, Operational Excellence, Quality and People. The budget relates to the first two, thus everyone's targets contain at least reflections of the annual budget.

6.7.3 Budget Communication

As all of the managers seemed to favor challenging budgets, communicating them to the employees becomes pivotal, if the motivational aspect of the budget would be utilized. Apart from Assurance, each Service Line updates their progress budget-wise to the employees once a month through internal meetings or newsletters. Also, the CEO gives a business review once every quarter, updating the current situation of the company to all employees. The updates on the financial performance usually focus on TNR, other KPIs and cost related metrics.

In Assurance, the budgeted objectives for the new fiscal year as well as the final outcome of the previous year are communicated to the employees in the annual kick-off event at the start of the fiscal year, usually in August. During the year, Helsinki's Assurance SL has three to four team-updates that are also used to direct employees to seek chargeable work to do, especially towards the end of the fiscal year, when the busiest season for Assurance has ended (Manager B). However, Manager A noted that in certain circumstances, the budgeted objectives are not communicated to the employees at all. This relates to situations where the budgeted TNR target is lower than the previous year's outcome, which can result from major client losses etc. *"I cannot go in front of our employees and tell them that this year we are targeting two percent decrease in our TNR when that is not really the case"* (Manager A). Neither said anything about the regional offices.

Both Advisory and TAS have the challenge on what they are communicating, as both of them could use their own shadow-targets. According to Manager D, Advisory mostly uses the official budget, as it is included in all the financial reports and then they verbally discuss the progress compared to the unofficial target. *"In terms of communication, this business is really difficult, as one good or bad month can change the story completely"* (Manager D), meaning that exceptional months distorts the comparability, making it harder to tell what is the actual situation on a longer scale.

Curiously, Manager G said that he has usually given only indefinite updates on how they are doing on team level. He did mention that a more regular update could be needed as spontaneous questions on the progress are arising more often. *"The reason for the lack of communication on the issue has been that it is hard to know how the employees take the updates as some might consider it pressurizing"* (Manager G). However, as Manager G had said earlier that the motivational aspect of the budget is more important to the employees than the planning aspect, the lack of communication is preventing the use of the budget as motivational tool.

In addition to the official outcome updates, Manager F noted that "corridor talks" are also a prominent medium in Tax. *"We have quite an open culture here and if someone asks how we are doing, we can discuss the KPIs relevant to the person in question, such as TNR and Gross Margin. Of course, I would not be talking about Income per partner to everyone"* (Manager F).

Based on the managers' answers, the case company's employees are given regular updates on their unit's performance budget-wise. However, Manager G's note implied that it is entirely up to the manager in question on how much of the prevailing outcome is disclosed. Thus, the employees might not acquire a clear status update in their regular team-meetings.

6.8 General issues with the current budgeting system

As practically in every single budgeting system in use, also the case company's budgeting has problems or issues in it. Then it is a question of are the issues related to the budgeting process itself or to the use of the budget. System or process related problems are difficult to repair, as the global organization would not allow much room for maneuvers. Issues in the use of the budget could be corrected as they more often relate to management philosophy and their change requires mostly change management.

In the past, when the company still used its own excel templates, the SL leaders had access to summary reports, which were directly linked to the actual budget templates so that they could monitor their budget in real-time. When the company started to use a web-based tool in the process and restricting the access only to controllers, this possibility disappeared. Although the change brought stability to the process, it made the managers completely reliant on the controllers producing reports for them, to which the time resources are not effectively available.

In general, the managers did not offer severe criticism towards the current budgeting system. They all agreed that some kind of measuring system is required for target-orientation, growth and profitability. But after that it is a question on whether or not there would be a better way to do that. *"The system's idea is to give people a clear image on whether or not they are doing the right thing through measurement. And if there was a more reasonable way to create that image and get an instant feedback from it, that are these actions and sales leading to a better situation than where we were yesterday, by all means"* (Manager F). Manager C had similar thoughts, saying that *"maybe the annual budgeting is not needed at all. Of course, it can be an annual budget or a three year plan that is updated once a year, or something else. The more important thing is to set the ambition level once a year"*. However, the general atmosphere on the current budgeting system was that *"surely it could be carried out more reasonable and less heavy than currently"* (Manager B).

A few managers did give more specific criticism. Manager C said that the system contains quite much unnecessary items and additional self-made problems as some processes are made overly complicated without a clear reason. Manager C continued that he has been worried that the financial principles could hinder the cooperation between countries and Service Lines. Manager F said that the current system is extremely costly to produce what is needed, saying that *"it feels that the current budgeting system is designed to serve more those leaders who want to ask questions, rather than that the use of budgets would lead to better business."*

Surprisingly, Manager F was the only one emphasizing the problem of silo-thought, focusing on your own budget targets and protecting them. As revenue to units is based on which code block the employees have been coded; where the work was physically done, the system encourages units to maximize their own resources. As each employee carries with him a small margin, growth is easily achieved by recruiting more people, rather than actually increasing the sales, as everyone will eventually find somewhere to put their available hours. *"The business should focus more on what the clients are actually paying us, instead of boasting on how much chargeable hours statistically have been done"* (Manager F). The fact that the system creates TNR through the hours reported by the employees and divides the revenue to the units where the people have been coded, hinders effective client management and client profitability, as every code block has their own budget and objectives, they tend to protect their targets by doing the work, which could be done more cost-effectively somewhere else, themselves. For example, some work could be cheaper to do in Helsinki, where there are trainees available, than in a regional office where a higher ranked person does the task. This could be expected if the office TNR targets are imported to the office manager's personal targets, even though achieving personal goals only affects the annual performance rating, not the amounts in the bonus pool.

Manager F summed up the problem by saying that *"It is easier for us to outsource some of our work to India than from Oulu to Helsinki."* This indicates severe target-related protectionism, which does not improve the company's overall outcome. Manager H touched this topic, mentioning that separate offices and their individual budgets clearly hinder the effective work distribution in the company.

The reasons behind this protectionism may not be a result of budget related performance evaluations or the company's bonus systems, but rather based on historical reasons. Most offices were originally small independent audit firms, which joined the Company when it still was more of a loose network. In that time the regional offices had much more right to decide on their own actions than what the situation is nowadays, as the organization has been highly centralized during the last ten years (Manager K). Regardless of this, the managers remain used to the role they had before and act in accordance to it.

The differences in the businesses between the Service Lines has created an indirect issue regarding budgeting and relates also to the issue of protectionism. The use of budget and its targets puts emphasis on revenue, meaning that Services should focus on where the revenue is coming from, which is something that suits revenue-driven businesses, such as Assurance. However, the consulting businesses, which are sales-driven, want and need to focus much more on sales as the revenues depend on it. This issue was frequently brought up by Manager F, stating that *"the current system is too much management by numbers"*. Manager J mentioned a similar idea, saying that the integration of sales, delivery and revenue; what is sold, when it should be delivered and how much is actually received from it; is something where the Company has much to develop and to go forward.

The managers were quite cautious on giving severe criticism towards the current budgeting system. Many opinions related to the heaviness of the process. Although the issue of protectionism was not brought up by most of the SL managers, it does not mean that it is not prevailing. Advisory and TAS are based only in Helsinki and thus are able to be organized solely by Service so the problem does not concern them that much.

6.9 Analysis on the alternatives to traditional budgeting

Even though the case company had not used any of the alternative budgeting methods in the past, it was necessary to analyze their plausibility in the company, if only to find development suggestions for the current system.

6.9.1 Beyond Budgeting

The implementation of beyond budgeting would completely revolutionize the case company's financial systems. The question, however, is how realistic would this concept be for the company. As in the literary review, this analysis focuses only on the budget related issues, and does not tackle into decentralization.

The change to use stretched targets instead of fixed financial objectives could be feasible. The stretched goals are already used in the company's revenue planning, so there is some experience on the idea. However, as the concept would still require some kind of forecast on the financial outcomes, the change could be handled by shifting the target focus to revenue plan targets and reducing the budget's role just to outcome forecasting. In this sense, the annual budget would not be needed as it could be replaced by rolling forecasting or something similar. In addition, the BB's emphasis on KPIs has already been a reality in the company for a few years, even though the managers still focus on absolute figures, such as TNR.

There would be problems to use external benchmarks in the case company. All in all, the interviewed managers did not think the external benchmarking would be possible for a few reasons. Most of all, the data would not be available in real-time. Even though publicly listed companies are required to disclose their financial figures once every quarter, that is not the case for non-listed companies. The case company and its major competitors disclose some of their financial figures once a year in a mandatory transparency report. Thus, the external benchmarking could be done only once a year. Even so, the problem in external benchmarking would be that the companies may not calculate the same metrics in the same way or the companies' organization and ownership structures can be vastly different (Manager K). Therefore, the metrics would not be comparable. The case company conducts external benchmarking is annually, but that is more of a supporting process to check progress on the strategic goals.

On the issue, Manager A noted that there is a comparability issue in the businesses between the major competitors. The share of audit work of the company's total revenue varies, and those competitors with a bigger share are defending their share, whereas the case company, striving towards market leadership, is attacking the competitors share. Manager A also noted that since they want to be the market leader, they cannot be doing the same thing as the competitors, but have to do something differently; otherwise the company's position in the market would not change.

In addition, one major challenge is the fact that the company's biggest competitors, to whom the outcome is benchmarked, are most relevant to Assurance. The consulting business have other important competitors as well and the major competitors from the company's overall point of view might not be that relevant to a particular service, even though they still are annually benchmarked to those companies (Manager D). During the fiscal year, the more relevant benchmarks for the Service Lines are other Nordic countries, which can be used to learn what the other countries are doing right and what could be done better in Finland (Manager E).

Performance related issues in traditional budgeting, as highlighted in the literary review, are not that relevant in the case company. Even though the budgeted objectives are moved to the managers' personal targets, their reward is not solely based on achieving the budget, but also on non-financial metrics. BB also suggests that the bonus pool should be decided by the team performance, which is exactly what the company has been doing for years.

As for the BB's idea that the use of resources would be based on ratios, such as cost to income, leaving much independence of spending to the managers, it would not work in the case company. Resource allocation is rarely as simple as beyond budgeting states. The case company, like any other company, has limited resources in its use, regardless of ratios. Therefore in order for the concept to work, the company would require some kind of criteria to prioritize competing demands for resources. It would not be realistic that units would have unlimited budgets as long as their ratios were within limits. At some point there would not be any available resources, even though the unit's ratios would allow it. The idea that Service Lines would be able to decide which internal function services they would like to use, is unrealistic as what is to be done with the administrative people during the time the SLs decide not to need them for the time being.

Basing the use of resources on ratios would create an additional challenge regarding strategic investments, where the company does lower margin work in order to build up a new client relationship. Those strategic investments reduces profitability and if the use of resources would be based on cost to income ratio, the unit would have less resources in its use during strategic investment processes, which would discourage their implementation.

Beyond Budgeting advocates that without fixed objectives, the coordination and cooperation within the company should improve as resources could be focused based on market demand. Concerning the case company, this would not fully work between the SLs, as the employees are specialized in specific areas of expertise, which may be difficult to use in some other Service Line. Therefore the consultants could not be simply moved to audit services if their own services' market demand collapses. Also, both Advisory and TAS require sales effort all the time and if the employees would be reassigned to other SLs when business is slower, they would be difficult to get back when the situation changes, as by that time they would have committed to other work.

The issue of silo-thought in the case company is one the notable behavioral issues regarding budgeting criticism. In their criticism on traditional budgeting, Hope & Fraser (2003a) pointed out the behavioral problems in the process. Most of them relate to agency problem that the manager is trying to secure his own success at the expense of the company. Even though the criticism would be completely true, it is interesting that the agency problem does not play any part in beyond budgeting. Based on the significance of the agency problem in the management accounting research, it could be assumed that giving managers more freedom and autonomy would also increase the agency problem. Thus, the use of Beyond Budgeting instead of traditional budgeting might not eradicate this issue.

The use of beyond budgeting concept would increase the autonomy of the managers, but at the same time increase their administrative workload, as the concept requires continuous forecasting and benchmarking and especially because the autonomy would decentralize much of the CBS's tasks to the SLs and would require much more hands-on management. Therein lays the most serious hindrance the Case Company would have regarding BB concept. The managers are extremely focused on the profitable work and selling and the administrative burden is an unavoidable part of being a manager. Currently, most of the managers are generally unwilling towards any administrative tasks. Therefore, that burden is tried to be minimized and they would most likely be very reluctant to increase their administrative tasks just to avoid annual budgeting, which at the moment does not take too much of their time.

The results of the analysis as well as the answers from the managers indicate that the concept of Beoynd Budgeting most likely would not work in the case company and would bring more challenges than it would solve.

6.9.2 Activity-Based Budgeting

The idea of Activity-based budgeting and the revenue planning process in the case company are quite much alike; apart from the revenue planning's stretched targets. ABB's advantages to the case company would be in the lighter budgeting process, but there would be severe problems in the system if it would be implemented. Most of the problems are similar as described in the revenue planning process. ABB would suit best for Assurance, who can create a major share of their budget through estimated client revenue. However, for all the other Service Lines, ABB would not work, as e.g. Manager E explained, TAS cannot estimate client revenues as they could not know who they are working for in the upcoming year in advance. The volatility of the services makes it impossible to reliably forecast the demand of each service, as market conditions can change rapidly.

The ABB's idea is that the financial budget is based on the operations budget, in this case the revenue plan. As the revenues cannot be forecasted even fairly accurately, except in Assurance, creating a financial plan based on those figures would be extremely challenging. Regardless of the revenue plans' phasing, the direct expenses would materialize monthly. And as explained in the previous chapter (see chapter 6.9.1.), the case company's employees would be difficult or impossible to allocate to other Services based on prevailing market demand, since they are specialized to particular services. Thus, ABB would not be useful for the financial plan in the case company.

Activity-Based budgeting could work for the case company at least on some level, if their clientele would consist mostly of publicly listed big companies and the number of clients would be smaller. However, the Finnish business contains numerous smaller companies, in Assurance thousands, and estimating their demand would make the process extremely heavy and ineffective with little added value.

6.9.3 Rolling Budgeting

The idea of rolling or continuous budgeting is the alternative concept to budgeting that could be the most plausible one. The case company has had history on updating the budget more often than once a year, thus the change would not be that dramatic. The managers did not seem to be open to other kind of forecasting systems than an update possibility, as they felt that other solutions, such as rolling forecast of twelve months would not create any added value, and would just be confusing (Manager A). However, once again the differences in the businesses between the Service Lines would create some challenges to the system.

Up until FY11, the case company had a supporting process for annual budgeting called outlook, basically meaning a budget update after six months. This process was more or less a budget duplicate as it was on the same level of detail as the annual plan. However, if the estimates for the fiscal year remained the same, the budgeted figures were kept also in the outlook. After FY11 the process was discontinued and replaced by a quarterly high-level forecast on a sub-area level so it concerned Finland only indirectly.

The managers felt that the outlook process had been useful, especially if the budget was not valid anymore. The outlook process gave an opportunity to analyze the situation and think what could be and should be done in the remaining months to improve the situation if necessary (Manager A). Each of them also noted that the process should have been a lighter one; the outlook should have focused only on TNR and other KPIs, rather on so much detail. However, Manager F thought that the process held value more to the CBS function leaders than to the Service Lines as the outlook's information value was useful to support decision-making on whether or not to start cost-saving processes. For the SLs, the outlook did not justify any major changes, as *"a longer time period would have been needed to make changes to the production capacity"* (Manager F). Manager C had similar opinions on the process, saying that he was not sure how much added value the outlook process actually gave, as it was done only once a year and took three weeks to do.

However, the managers were open to the idea of having an overlapping forecast process with the budget, if it was to be done fast and light. This was something they wished for the annual budgeting as well, a lighter and simplified process. How often the updates during the fiscal year would be done, depends on the Service Line and the manager in question; once every quarter could be the most logical option. Manager C from Advisory Manager C said that he had experience also on updating the forecast each month for the next six months, ensuring a continuous reality-check to the estimates. Therefore, he preferred the idea of updating at least quarterly or even monthly, indicating Advisory's need for more frequent forecast updates as well as the manager's experience to such processes. Surprisingly, Manager D thought that the company should not initiate new planning processes at all, as they could handle the whole thing in a simple excel template. However, Manager E noted that if the estimates are the same as the last time, there is no point wasting time on another update.

All in all, the managers were open to an overlapping forecast process to budgeting, but only as long as it was extremely light process. However, their answers indicated that the advantages of such process would be minimal to the SLs and more to *"those managers who want to ask questions"* (Manager F).

7 Conclusions

The object of this research was to find out the viability of the case company's current traditional budgeting system and whether or not it could be improved to suit better for the needs of the company's management. As budgeting is an annual routine, deeply ingrained to a company's organization structure, it is difficult to challenge or change. The answer to the research question was approached through interviewing the case company's managers. In light of the research results, traditional budgeting can still be considered a useful tool and the best possible solution at the moment. However, it became clear that the current system could be improved and more emphasis needs to be put on developing the system within the globally set frames as budgeting is very inclined to support the preservation of the status quo; doing things the way they were done yesterday, because they were done yesterday.

The research results depicted a somewhat positive image of the company's budgeting system as a whole, as well as in the use of budgets in control and performance management. The company has also managed to avoid many major points of budget criticism. However, the system still contains negative aspects, some of which cannot be changed due to the globalized process. On the other hand, there are issues that could be corrected through changes in monitoring, target setting and most importantly, changes in the mindset of the managers. Overall, the results indicated that the case company's budgeting system stands at a crossroads, although the choices are not whether to abandon budgeting or not, but rather relating to the organizational aspects. Traditionally, the company has been considered to be mainly an auditing firm and thus most of the processes have been designed for Assurance's use. However, the consulting businesses have been growing fast and their TNR already is more than half the company's overall TNR. Therefore, their needs and requirements have to be taken more into account with future developments.

The results seemed to be similar to Libby & Lindsay's research (2010) that the budgeting system is deemed to be useful, there are issues in the system, but that the issues are not near the severity as presented by Hope & Fraser (2003a). The managers answer were also similar to results presented by Ekholm & Wallin (2000) that managers are not ready to abandon budgeting, but conclude that the system needs adjusting.

7.1 On the current status of the case company's budgeting

A separate revenue planning process, which globally is supposed to be the new target-orientation tool, as global favors realistic and careful budgets, received a united condemnation from the interviewed SL managers. Thus, in its current form, revenue planning cannot be effectively used for its purpose. Therefore, the annual budget still should and does contain a clear target-orientation.

The overall budgeting process is centrally controlled and there is very little to be done to it, even if wanted to. The timeframe of the process and the guidelines are decided on a global level and they set the framework under which the countries have to operate. The managers said that they have a link from the strategy to the budget, but its clarity could not be verified without analyzing each SLs strategy year by year. A link to the strategic growth targets seems to have been kept, since even though EMEIA demands realistic budgets, the managers can still justify target-orientation in their budgets. The problem with the current process is that the inclusion of strategic investments or initiatives is problematic as the SLs are required to improve profitability at the same time. The results showed that the company has conflicting roles for budgeting in planning and motivation, as described by Barrett & Fraser (1977), although the company has been able to utilize more or less both roles.

Each manager said to start the budget by setting up a target and build the budget based on that. However, the company is lacking a tool or analysis to help linking the budget to market reality, excluding a managerial hunch. The target-orientation is somewhat challenging as the objectives are expected to be met and as the level of predictability varies greatly between the Service Lines. While Assurance is able to create quite accurate forecasts for business reasons, the consulting businesses rely much more on assumptions, complicating the forecasting and underlying the grave importance of sales throughout the fiscal year. Regardless of this issue, the company's overall budget accuracy has been fair in the six years analyzed for this research, indicating that despite the hardships in forecasting, the managers' hunch and business sense can bring some market reality to the budgets.

The managers have quite a good process for variance analysis for TNR and its drivers, which are supported by the type of control where the results are regularly discussed. The company does utilize tight budgetary control to some extent, with the same characteristics as found by Van Der Stede's research (2001), but at the same time the budget is not considered to be a restrictive element in the decision-making process. The level of budgetary control does not seem to create a need for budgeting slack, which is contradicting the findings of Merchant (1985), since even though there is an emphasis on achieving the budgeted objectives, managers still favor challenging budgets. On the other hand, this can derive from tradition and from the fact that the outcome is easily affected by outside factors, making poorer performances easier to explain.

However, the expense control had problems. The lack of visibility and the continuous rise of the global costs seemed to ire the managers greatly. The SL managers were also confused about who should be responsible on the costs that are handled through the administrative functions, the SLs paying for them or the functions themselves? For the expense control to work properly, it requires the functions to take full responsibility of the costs, which is something they have not been used to. For this to happen the formal and informal authority of the function leaders on the related costs has to be enhanced, since currently their level of authority is ambiguous.

Interestingly, achieving the budgeted targets may not determine a successful year, as the company benchmarks its outcome and growth rate against major competitors. A higher growth rate, compared to its competitors, is required that the upper management could consider the fiscal year a success. Budget responsibility in the company is somewhat a difficult issue as most of the SL or SSL managers are partners, meaning that they basically are peers to one another. With poor performance, the managers' annual bonuses are affected and repetitive underachieving can results to changes in the leadership, but other than that there are relatively little alternative actions for poor performance, when the performance is not affected by outside factors.

The company has managed to avoid one major problem in the use of budgets in performance management. Even though the budgeted TNR targets are linked directly to SSL leaders' personal targets, and even the lowest level employees should have budget related targets, such as effective utilization %, the personal level targets only affect the annual performance rating, not the size of the bonus pool, which is dependent on the SL and/or country performance. This eliminates budget-gaming to some extent as the managers have fewer reasons and possibilities to affect their own annual bonuses.

The system, nevertheless, has some other general issues in it, some of which can be quite severe. The current system is extremely heavy and time consuming, although all the interviewed managers said that the budgeting process did not take too much of their time. But some of them noted that even the controllers' time could be spent better. On the positive side, the people related issues, as presented in the literary criticism, seemed to be quite minor ones, although the managers' answers can be affected by their unwillingness to admit any wrong-doings from their part or to bad-mouth the practices of the company to which they are owners.

The biggest issue in the company's current system revolves around revenue protectionism. As the financial system creates revenue based on the employees' week reports, TNR is generated based on which unit the people have been coded to, which in turn encourages units to maximize their people resources. This hinders the effective distribution of the chargeable work, since separate offices do tasks that could have been more cheaply done by a trainee in another office. But if the task would be handled by another office, in the same SSL, the revenue would go where that trainee has been coded and the owner of the engagement would have lost that part of the revenue. The protectionism is remnant of the old organizational structure where the individual offices had much autonomy, before the globalization and centralization process began.

Overall, all of the managers agreed that they need at least some kind of measurement system, and at the moment traditional budgeting fills that need. They did, nevertheless, think that the current system is a bit too heavy and could be handled more reasonable.

7.2 Development suggestions

The analysis of the alternative budgeting methods proved to be a minor disappointment. Especially the concept of Beyond Budgeting contains numerous problems, some of which perhaps could be tackled, but which also shun its theoretical potential. Implementing beyond budgeting would increase the administrative burden of the managers, to which they would most likely be completely unwilling, considering their general mindset on administrative issues. Activity-based budgeting's idea is already in use in the company's revenue planning process, but due to the nature of the business, the concept would have severe difficulties to be used to create financial budgets. The managers were most open to the idea of rolling budgeting, but only in the sense of periodic high-level updates on the annual budgets and not so much to other forecasting methods. Given the issues raised by the managers and the fact that the alternative methods would not suit the company properly, the current budgeting system's issues should be corrected, as much as the global framework would allow, even though the processes themselves cannot be changed.

In the current system, expense control seemed to create the most confusion. Cost control can be improved relatively easily by following Manager C's suggestion that CBS functions should justify every cent of their spending. So far, they have just been required to return their data collection templates, which do not reveal what they have been planning to spend the money on. The easiest way to correct this is to require the functions to disclose what are they needing the resources for, how much is the estimated costs and when the resources for that particular cost are needed. The remaining budgeted sum should represent simply a reserve for unexpected costs. This would hinder the appropriation-mentality, since it could be analyzed how much the items actually cost compared to the planned amount. The current lack of transparency makes it easier to move cost-savings from one item to something else. And during the next budgeting process, the planned costs can be compared to the previous plan as well as the actual costs from the fiscal year.

The issue of protectionism is difficult to remove completely, but possible to some extent. If the existence of budgets is considered to be the source of the problem, a partial solution would be to limit the budgeting units. At the moment, global requires budgets for Service Line and Sub-Service Line levels, so there are no requirements for office level budgeting. Therefore, the level for budgeting should be limited to SSL level. First of all, it would reduce the budget related work and should help to enable a more cost-effective work distribution as it would not be important where the work geographically would be done, although it would not break the boundaries between the SLs. The change would link well to the global integration process by helping to remove the old organization ideology.

Naturally, those units who would not have a budget any longer could compare their outcome still to prior year, but it would not completely remove the protectionism issue, since the TNR would still be generated the same way. One possibility would be a shift of focus from unit TNR to engagement revenue, which shows the revenue generated from the unit's own chargeable engagements, regardless of who would actually do the work. TNR would still remain as the priority focus on SL and SSL levels, being a global priority metric. Regardless of the protectionism, the case company could still use target-oriented budgets. It is just a question of setting the budgeting level so that it does not impair the Services' effective operations.

But the question might not be about which metric to monitor, but rather which metric is used in the unit's and the related personnel's target setting. If the targets are based on TNR or any directly budget related metric, protectionism would appear. Target setting based on sales or client profitability could be a solution. However, as the target-setting affects many factors, this research cannot offer a straightforward answer, but rather points that the answer to the budget related protectionism is in target-setting. The issue is a delicate one, since if the managers' budget is just taken away; it removes a symbol of their autonomy, which can leave them greatly dissatisfied.

7.3 Future research

Given that the budget effectiveness and functionality depend highly on the particular company, its environment and personnel, the case studies about budgeting should be conducted to improve those particular budgeting systems, but also to contribute to the general budgeting debate about its usefulness.

This research revealed potential future research topics within the case company itself. As the company has traditionally used challenging budgets, the strategic growth has been easier to include to the annual budgets. However, the global perspective on budgets is the realistic outcome estimate, something which is hard to include within target-orientation. The managers also brought up the problem of strategic investments affecting the figures, which are then challenged by people higher-up, who do not know about the investments. Therefore it should be researched how the strategic link to the budget can be improved, even if the budgeting mentality is not target-oriented anymore. How could the strategic targets be incorporated to the annual plan? And is it possible to increase transparency to make the strategic investments more visible?

The managers also pointed out that there is a gap between the budget targets and market realism, which is usually a part of general budgeting critique. In the case company, the market realism is represented by managerial assumptions. The accuracy of budgeting would improve by establishing a better link to the market, especially if the budget could be updated, e.g. quarterly. But since the consulting businesses rely heavily on sales work, how the link could be achieved, is unknown.

And finally, based on this research, the case company should start to examine how to change their target-setting so that budget-related protectionism would fade away, but at the same time to have meaningful target setting, so that the managers who previously had a budget and related metrics in their target-setting would not feel demoted or unappreciated.

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Interviews

Manager A, Partner, Leader of Assurance Services, 5.6.2012, 45 min
Manager B, Partner, Assurance Services, 12.6.2012, 45 min
Manager C, Partner, Leader of Advisory Services, 1.6.2012, 45 min
Manager D, Partner, Advisory Services, 13.6.2012, 30 min
Manager E, Partner, Leader of TAS, 15.6.2012, 40 min
Manager F, Partner, Leader of Tax Services, 1.6.2012, 45 min & 5.6.2012, 30 min
Manager G, Partner, Tax Services, 11.6.2012, 30 min
Manager H, Partner, Leader of Legal Services, 7.8.2012, 45 min
Manager I, Partner, Leader of Business Development, 18.4.2012, 20 min
Manager J, Partner, CEO, 22.10.2012, 30 min
Manager K, Partner, CFO, 26.10.2012, 35 min

Appendixes

The actual transcriptions of the interviews could not be disclosed, as they contain confidential information of the case company.

Appendix I – Interview covering letter

Hei

Olen työni ohella tekemässä Pro Gradu – työtäni Aalto Yliopiston Kauppakorkeakoulussa (ent Helsingin Kauppakorkeakoulu) suuntautumisalueena Johdon laskentatoimi.

Tutkimukseni aiheeksi valikoitui vahvasti omiin työtehtäviini liittyvä vuosibudjetointi. Gradun tämänhetkinen työnimi on *"Budgeting at a crossroads – The viability of traditional budgeting: A Case Study"*.

Tutkimus ei fokusoidu pelkästään budjetin muodostamiseen, vaan etenkin sen käyttöön. Pyrin lähestymään aihetta johdon näkökulmasta. Tämän vuoksi tarvitsen nyt teidän apuanne. Selvittääkseni budjetin muodostamisen, käytön ja kehittämisen, haluaisin haastatella Teitä. Haastattelun kesto riippuu pitkälti vastauksistanne, mutta olettaisin vaadittavan ajan olevan 30-60min. Toivoisin, että jokainen Service Line meiltä osallistuisi, jotta tulokset olisivat mahdollisimman kattavat.

Jotta teidän olisi helpompi valmistautua haastatteluun, liitteenä on kysymyslista, joista selvinnee tarkemmat aihealueet. Voi myös olettaa, että vastausten perusteella esitän tarkentavia / lisäkysymyksiä. Kysymykset pohjautuvat gradussani käytettyyn teoriaa, joten ne eivät välttämättä taivu suoraan teidän yksikköönne. Epäselvyyksien välttämiseksi selitän tarvittaessa haastattelutilanteessa mitä tarkoitan.

Lain mukaan gradut ovat julkisia, ja yrityksen nimi tulee tekstissä esille. Olen saanut aiheeseen liittyen hyväksynnän [redacted]. **Tarvittaessa on mahdollista sensuroida yrityksen nimi ja tiedot kokonaisuudessaan tekstistä**. [redacted] tarkastaa lopullisen työni ennen sen palautusta, jotta mitään salassa pidettävää ei tule sisältymään graduun. Painotan itsekin tätä kirjoitusprosessissa. Tekstissä ei tulla käyttämään varsinaisia budjettilukuja, strategiaa tms. jne.

Jotta minun ei tarvitse luottaa muistiini, joudun nauhoittamaan haastattelut. En tule käyttämään nimiänne tekstissä (lähdeviitteissä), ja lähdeluetteloon listataan vain haastattelujen pvm, kesto ja haastateltavan rooli yrityksessä.

Mitä hyötyä tästä sitten on teille? Liiketoiminnan parempi ymmärtäminen on oleellista, jos controllerien työtä halutaan kehittää, myös pro-aktiivisuuden lisäämiseksi, kun kehitämme ymmärryksen teidän tarpeista budjetoinnin, analysoinnin ja raportoinnin suhteen.

Voisitteko viestin luettuanne lyhyesti ilmoittaa minulle, suostutteko haastateltavaksi. Tämän jälkeen yritän löytää sähköisestä kalenterista sopivan ajan. Jos ette käytä sähköistä kalenteria tai se ei ole ajan tasalla, kerrotteko karkeasti sopivan ajan ja/tai kenen kautta voin sopia haastattelusta. Jos suinkin vain mahdollista, haluaisin hoitaa haastattelut ennen kesälomien alkua.

Appendix II – Interview questions

1. Olisiko revenue planning ja fina budjetti mahdollista linkittää toisiinsa?
2. Minkälainen seuranta revenue planningin tavoitteiden suhteen on?
3. Miten strategia pyritään ottamaan huomioon budjetissa?
4. Miten uuden tilikauden tavoitteet / budjetti muodostetaan?
5. Kuinka paljon aikaa budjetointiprosessi keskimäärin teiltä vie?
6. Onko budjetin ensisijainen tehtävä antaa mahdollisimman realistinen näkemys tulevasta vuodesta vai antaa motivoivat, haastavat budjettitavoitteet?
7. Kuinka hyvin liiketoiminnan kehitystä pystyy ennustamaan reilun vuoden eteenpäin?
8. Oliko outlook – prosessi, eli ns. budjetin päivittäminen mielestänne tarpeellista?
9. Millainen sisäinen kontrolli / analysointi teillä on aina viimeisimmistä luvuista?
10. Jos budjetti osoittautuu saavuttamattomaksi tai vääristyneeksi reilusti ennen tilikauden päättymistä markkinaolosuhdemuutosten takia, mitä sitten? Miten mittaristoa voidaan käyttää?
11. Edustaako budjetti, yleisesti, teidän aitoja tavoitteitanne tulevalle tilikaudelle vai sitä mihin resurssien perusteella pitäisi päästä?
12. Onko tilikausi onnistunut jos tulos jää budjetista mutta on parempi kuin edellisellä tilikaudella?
13. Onko budjetilla ja henkilöille asetetuilla henkilökohtaisilla tavoitteilla yhteyttä?
14. Miten budjetti, sen tavoitteet ja kehitys kommunikoidaan työntekijöille organisaatiossa?
15. Miten budjetti toimii päätöksenteon tukena?
16. Onko budjetoinnista, nykymuodossaan (prosessina, tavoiteasetantana), hyötyä teidän yksiköllenne?
17. Sisäisten mittareiden sijaan, olisiko realistisesti mahdollistaa painottaa vertailussa enemmän ulkoisia mittareita, kuten kilpailijavertailua?
18. Pitäisikö siirtyä vuosibudjetoinnista rullaavaan budjetointiin, samalla budjettia huomattavasti keventäen
19. Miten ja mihin suuntaan budjettia pitäisi mielestäsi kehittää?