

# Beyond budgeting or better budgeting?

This Knowledge byte is based on a presentation which was given by Dr Stephen Lyne, senior lecturer in accounting and management at University of Bristol, and Professor David Dugdale, professor of management accounting at University of Bristol. They presented the results of their recent survey into attitudes towards budgeting.

**The survey investigated the current use of budgets in medium and large companies. It attempted to identify the changes that have taken place over the last five or so years, against the background of the debate about the merits of budgeting.**

Some experts have mounted wide-ranging critiques of the manner in which budgeting systems are typically implemented. The process can often be bureaucratic and expensive, budgeting can fail to meet the needs of managers in competitive environments and budget systems can lead to managerial 'gaming' of the numbers. In practice, recommendations to go 'beyond budgeting' often involve virtually abandoning budgeting. These criticisms are primarily made by non-financial managers who have to 'suffer' at the hands of management accountants persisting in implementing outdated budgeting procedures.

This project found little evidence to support these views. There seems to be no widespread dissatisfaction with traditional budgeting. Instead, managers generally see budgets as important, especially for planning, control and evaluation. There is also a high degree of agreement between financial managers (FMs) and non-financial managers (NFM) on the role and importance of budgeting.

The research project was based on a survey mailed to companies in the South-West of England. By concentrating on companies where the financial manager was a member of Bristol Centre for Management Accounting Research (BRICMAR), an overall response rate of 40.1% was obtained. A completed questionnaire was requested from both a financial and a non-financial manager in each

company. In 40 companies a finance manager responded and in 21 of these a completed questionnaire was also received from a non-financial manager.

The first research question sought to determine whether FMs and NFM) had different attitudes to budgeting in their companies. The overwhelming yet surprising finding was that these two sets of managers gave very similar answers throughout the questionnaire. The only significantly different responses related to the time consuming nature of budgets and their realism and importance

- FMs agreed more strongly with the statement that 'budgets are too time-consuming for the results achieved'; and
- NFM) agreed more strongly that 'budgets are unrealistic' and 'budgets are too inaccurate: more resources and technology needs to be devoted to them'.

Perhaps these results reflect the fact that FMs actually do most of the work in preparing, disseminating and updating budgets. NFM) do not necessarily see budgets as overly time-consuming and counterproductive. All 40 FMs confirmed that their companies set budgets, typically starting the process four to six months before the start of the financial year. Some 80% agreed that there were frequent revisions to the budget during the budgeting process. More than 90% reported both month and year-to-date figures showing budgets, actual results and variances. Fewer reported results for the previous year although 80% showed some past year data for comparison (either actual figures, variances or both).

About 75% of the respondents also reported that their companies provide some estimate of the out-turn for the current financial year. The chosen sample of FMs revealed

a near universal view that budgets are important. However, budgets can still have unfortunate consequences and, in view of the bad press that budgeting has received in recent years, it might be expected that managers would be unhappy with their budgeting systems on a number of counts. But the results do not support such expectations. Around 55% of respondents reported some form of change in the past five years and a number of themes emerged from their written comments, eg: greater involvement of junior management in budgeting processes; more detailed analysis; and intensification of the use of budgets.

In only one company did there seem to be a less intensive approach to budgeting with monthly sales targets abandoned in favour of a six monthly target. This was intended to encourage managers to maximise monthly sales (rather than simply meet the budget). These results seem to be in direct contrast to the BBRT critique. Budgeting has become more important in recent years, as have a number of 'modern' ideas, such as the balanced scorecard. The survey also suggests that the importance of standard costing and variance analysis seems to be diminishing. However, while traditional budgeting is now more likely to be combined with increased use of non-financial Indicators, its demise seems unlikely.

The researchers suggest that budgets can be analysed on two dimensions: implementation, control and evaluation; and planning. Also, negative attitudes to the consequences of budgeting can be analysed on six dimensions: bureaucracy; poor culture; gaming; rigidity; causing conflict between realistic and challenging targets; and having a historical, constraining orientation. This analysis also identified four dimensions in respondents' attitudes to

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certainty/uncertainty: certainty of actions; certainty of outcomes; uncertainty of outcomes; and uncertainty in the environment. The authors point out a number of associations:

- in competitive, uncertain situations junior managers were more likely to be involved in budgeting processes. In relatively stable environments junior managers were less likely to be involved;
- the dangers of excessive centralization were flagged by a strong correlation;
- between top management driving the budget process and perceived bureaucracy and the inhibition of junior managers;
- there was a significant correlation between sophisticated IT and top management driving the budget. However, there was also a positive correlation between sophisticated IT and both the involvement of junior managers and multiple budget iterations. The researchers conclude that IT can facilitate greater managerial involvement and a more complex process;
- in relatively predictable environments budgets are likely to be more important for control (not planning) and managers tend to disagree with pejorative statements about budgeting; and
- when there is more uncertainty, budgets become less important for control and more important for planning. A realistic budget is sufficiently challenging to managers.

There are likely to be more iterations during preparation of the budget and, perhaps because of this, greater scope for managerial gaming.

The researchers identified significant correlation between managers' satisfaction and certain contingent variables:

- satisfaction was greatest in stable environments where budgets were taken seriously, especially for control and evaluation; and
- conversely, satisfaction was lower in more uncertain situations and when the budget process was perceived to be bureaucratic or the cause of de-motivation and a culture of blame.

In the light of the findings, one can imagine two 'ideal types' of budget process:

- in stable circumstances, the budget might be prepared efficiently with few iterations and little junior management involvement. There may be dangers in excessive centralisation; and
- in competitive, uncertain situations, the budgeting process might involve several iterations with greater involvement of junior managers. There may be dangers of complexity and gaming.

A full working paper on which this briefing paper was based can be accessed at the BRICMAR web site:  
[www.ecn.bris.ac.uk/www/ecsl/bricmar.htm](http://www.ecn.bris.ac.uk/www/ecsl/bricmar.htm)