



Exploring differences in budget characteristics, roles and satisfaction: A configurational approach



Samuel Sponem*, Caroline Lambert

HEC Montreal, 3000, Chemin de la Côte-Sainte-Catherine, Montréal, Québec H3T 2A7, Canada

ARTICLE INFO

Article history:

Received 29 March 2012
Received in revised form 26 October 2015
Accepted 26 November 2015
Available online 10 December 2015

Keywords:

Budget
Configuration
Interactive control
Budget role
Budget satisfaction

ABSTRACT

This study proposes a taxonomy of budget configurations. Combining a qualitative analysis and a cluster analysis, we identify five patterns of budget design and budget use: the *yardstick* budget, the *coercive* budget, the *interactive* budget, the *loose* budget and the *indicative* budget. Our taxonomy of budget configurations allows us to describe complex arrangements that arise in practice. We observe that the budget is less criticized when the level of participation, the level of involvement of managers and the importance assigned to action plans during budget negotiations are high. This study refines the representation of budgetary practices, opening the way to a better understanding of the practice of budgeting.

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1. Introduction

While budgets are frequently criticized for being time-consuming, fostering individualistic logic and short-termism, and providing poor value to users (Hope and Fraser, 2003; Østergren and Stensaker, 2011; Henttu-Aho and Järvinen, 2013), they are still being widely used in most organizations (Libby and Lindsay, 2010). Extensive research in diverse theoretical perspectives (Covaleski et al., 2003) focuses on budgets, but often obtains contradictory results (Derfuss, 2009; Hartmann, 2000; Marginson and Ogden, 2005). These contradictory results might be explained by the fact that these studies tend to focus on one budget dimension and neglect the diversity of budget roles in organizations (Hansen and Van Der Stede, 2004). The inconclusiveness concerning the positive and negative effects of budgets may also be linked to the fact that, when investigating budgets, researchers tend to study their characteristics separately, rather than understanding them as a set of dimensions that are linked together (Shields and Shields, 1998). Brownell and Hirst (1986) also point to the importance of interactions between the various dimensions of budgets, by highlighting that participation appears to exert a moderating effect on the negative consequences of using budgets to evaluate performance.

Few studies have tried to capture these multiple facets of budgeting (Abernethy and Brownell, 1999; Chapman and Kihn, 2009;

Hansen and Van Der Stede, 2004; Hopwood, 1972; Merchant, 1981; Van der Stede, 2001). These studies enlighten various relevant budget styles, combining a selection of dimensions of design and/or use. Most of them can be classified as typologies, meaning that conceptual work guides the selection of relevant dimensions of budgets to be studied (Bedford and Malmi, 2015). Nevertheless, tied by this very search for conceptual coherence, these studies have to make the implicit assumption that the dimensions they study evolve simultaneously in the same direction. By focusing on a combination of theoretically selected dimensions, they cannot capture a complete view of the scope of budget design and use.

While taxonomies propose “simple” descriptions rather than explanations, they are important for valid theory construction (Bedford and Malmi, 2015). They provide a rich picture of practices by capturing configurations, i.e., “multidimensional constellations of conceptually distinct characteristics that commonly occur together” (Meyer et al., 1993, p. 1175).

Several studies adopt configurational approaches to management control systems (Gerdin and Greve, 2004; Gerdin, 2005). For instance, Chenhall and Langfield-Smith (1998) examine how combinations of management techniques and management accounting practices enhance the performance of organizations depending on strategic priorities. The formality of attributes of management accounting systems across life-cycle stages of firms has also been studied and represented in a five-group taxonomy (Moore and Yuen, 2001). Recently, Bedford and Malmi (2015) refine and extend existing control frameworks and theory by identifying five major control configurations used by managers.

* Corresponding author.

E-mail addresses: samuel.sponem@hec.ca (S. Sponem), caroline.lambert@hec.ca (C. Lambert).

In line with these studies, we aim to develop a taxonomy of budget configurations and to describe complex arrangements that arise in practice. More specifically, we empirically examine how the different styles of budget design and use combine in configurations and how the latter are associated with budget satisfaction. Using a configuration approach to budget practices, we address three shortcomings of existing typologies on budgets. First, identifying unexplored budget patterns constitutes a milestone for constructing valid empirical tests of the impacts of budgets on individuals and organizations. Second, empirically derived budget configurations could extend existing frameworks by enabling us to examine more than one variable at a time (Miller, 1996, p. 505) without assuming that the different budget characteristics develop in concert, as suggested in existing typologies. Third, by developing a taxonomy, we can identify complementarity or substitutability between the different characteristics of budgets (Grabner and Moers, 2013) in order to clarify the impacts of budgets.

The study was carried out in two steps.¹ First, we conducted a series of meetings with CFOs and management accountants to discuss their budget practices in a focus group. Analyzing the focus group helped us to highlight major characteristics of budget package design and use (Malmi and Brown, 2008). Second, taking a configurational approach (Miller and Mintzberg, 1983; Gerdin and Greve, 2004, 2008; Gerdin, 2005), we performed a cluster analysis incorporating budget design and use characteristics. This enabled us to propose an inductive typology of the budgetary practices of 269 French firms and analyze how they relate to budget roles and budget satisfaction. Our findings are complemented by respondents' informative answers to open-ended questions. This taxonomy reveals five patterns of budget design and use: the *yardstick* budget, the *coercive* budget, the *interactive* budget, the *loose* budget and the *indicative* budget. These patterns can be differentiated according to three main characteristics: (1) the extent to which senior management is involved in the budgetary process, (2) whether or not the budget is used as a performance evaluation tool, and (3) whether it is possible to revise the budget over the year. In our subsequent analysis, we explored the differences between these various budget patterns.

Several contributions of this study can be highlighted. By incorporating qualitative data into both the construction of our design and use characteristics and by integrating a broader array of budget design and use characteristics, we propose a more complex image of how the different designs and uses of budgets are combined than is currently recognized in the literature.

By comparing the roles, criticisms and satisfactions in the various budget configurations, we also contribute to the literature on budgets by providing explanations for previous unexpected or apparently contradictory results. Contrary to previous findings, our results suggest that budgets with several concurrent roles do not systematically attract criticisms. In particular, we contribute to the debates in the Reliance on Accounting Performance Measures (RAPM) literature and suggest that interactions between the various components of the budgeting process could explain the less-than-conclusive findings of research into the effect of using budgets to evaluate performance (Hartmann, 2000). By analyzing the budget's evaluation dimension in its context, as suggested by Derfuss (2009), we show that the level of criticism relating to using the budget to evaluate and reward managers is lower when evaluation is coupled with other budget practices. We observe that the

budget tends to be criticized less when the level of operational manager participation, senior management involvement and the importance assigned to action plans during budget negotiations are high.

The remainder of this paper is structured as follows. In the next section, we discuss the theoretical and empirical research on budget configurations and the major design and use characteristics of the budget package. The third section describes the data collection and the construction of clusters. The fourth section presents five clusters of budget design and use, and their association with the roles and criticisms of budgets. In the final section, we discuss our main findings and conclude.

2. Literature review

2.1. Budget configurations

Recent research emphasizes the necessity to view management control systems as packages in order to take into account the interdependencies between these systems (Grabner and Moers, 2013; Bedford and Malmi, 2015). The budget process is a mix of design and use characteristics that varies across organizations; it is a set of controls that include planning, measurement and evaluation (Flamholtz, 1983), which could be considered a control package, as drawn upon by Malmi and Brown (2008).

Previous studies have contributed to our understanding of budget practices and identified various budget configurations. For instance, Hopwood (1972) examines the use of accounting data for performance evaluation and defines three evaluation styles making distinctly different uses of the data (budget constrained style, profit conscious style and non-accounting style). Merchant (1981) distinguishes administrative budgets (which emphasize explanations of variances, formal involvement in budgeting and strong reactions to expected budget over-runs) from non-administrative budgets. Abernethy and Brownell (1999), based on Simons (1987b, 1990), contrast the diagnostic use of budgets with the interactive use of budgets (as a mean of questioning managers' ongoing decisions and interacting between top management and department/unit managers). Van der Stede (2001) distinguishes tight from loose budgetary control (Anthony, 1988), based on the emphasis on five different dimensions, *i.e.*, meeting the budget, budget revisions during the year, the level of detail in the budget, tolerance for deviations from interim budget targets, and the intensity of budget-related communications. Chapman and Kihn (2009), based on Adler and Borys (1996) identify an "enabling style" of budget based on four design principles: repair; internal transparency; global transparency; and flexibility (as opposed to a "coercive style" of budget).

Although they examine several budget dimensions, these studies still provide a limited view of the scope of budget design and use. Hopwood's (1972) typology mainly focuses on the use of budgets for evaluation purposes. Merchant (1981) neglects this aspect but emphasizes managers' involvement in budgeting. Similarly, Abernethy and Brownell (1999) mainly explore the use of budgeting systems and assume that budget design is constant across organizations. While these studies help to better understand the budgeting process, they remain limited to certain facets of the budget package. Moreover, these typologies were developed on different types of samples (some focusing on small and others on large firms), across an extended period of time, and with incompatible focuses. Combining their results would be methodologically fragile.

Studies by Van der Stede (2001) and Chapman and Kihn (2009) provide a more complete description of the budgeting process, taking into account both the design characteristics and use characteristics of budgets. Van der Stede (2001) draws upon Anthony's (1965) classical typology and distinguishes tight budgetary con-

¹ In order to increase the internal validity of the research, we give a detailed account of the construction and use of the variables included in our study. We are grateful to the editor and the reviewers for giving us the unusual opportunity (Grafton et al., 2011) to account for the various steps of this exploratory research, resulting in a long paper.

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