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The Routledge Companion to Cost Management

Edited by
Falconer Mitchell, Hanne Nørreklit and Morten Jakobsen

The Routledge Companion to Cost Management

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1 Introduction

Morten Jakobsen, Falconer Mitchell and Hanne Nørreklit

Cost management

The pursuit of organizational goals requires the acquisition and use of resources and this generates costs. Creating profit, increasing market share or enhancing sustainability are all commercial goals involving resource consumption and so they have a direct link to cost while in a not-for-profit setting the need to adhere to budgetary constraints ensures that cost also plays an important part in organizational functioning. Understanding the nature of costs, how they behave and their links to value creation therefore constitutes an important aspect of organizational management. This information represents much of the knowledge that facilitates sound cost management, i.e. the use of cost-related information as a lens through which the organization is represented to and viewed by management as they strive to gain improvements in economy, efficiency and effectiveness. Costs have a direct impact on profit but they are also linked to the other key financial elements of revenue generation, investment and funding. Thus, rather than being viewed and managed in isolation these links have to be kept under consideration. Consequently, a strong managerial demand exists for a wide variety of information to enable successful cost management to occur.

In response to this demand, the generation of information to support cost management activity has become a popular and dynamic area in recent decades (see, for example, Simmonds, 1981; Shank and Govandarajan, 1993; Brinker, 1991; Bromwich and Bhimani, 1994). This text is designed to describe and explore the main contemporary developments in the topic. It also examines research activity undertaken on the various aspects of cost management and assesses the possibilities for future developments. Cost is a multi-faceted concept addressed in both the disciplines of accounting and economics. How cost is conceived and quantified is fundamental to its management. Thus, this introduction examines the notion of cost and its measurement as a foundation for the wide variety of chapters that follow. It then explains the significance and interrelationships of these chapters to provide a cohesive basis for various components of cost management that are covered.

An accounting perspective on cost

Costs are a representation of sacrifices made. Conventionally, from an accounting perspective, these sacrifices are based on the monetary outflows associated with the acquisition and/or use of a resource. Consequently, the traditional accounting measurement of costs is achieved through their quantification in terms of the resource's acquisition price, i.e. its historic cost. In this way, resource costs are readily identifiable and easy to record. The accounting perspective on costs can therefore make them susceptible to systematization. For example, book-keeping systems and the costing systems that support them routinely gather information on costs incurred and report on them regularly for management.

However, even within the accounting perspective, the cost information produced can be analyzed and presented in a multitude of ways. When contained within an income statement format, costs are normally categorized by the type of input they represent, e.g. materials, labour and overhead type. Alternatively they can be divided on the basis of how they behave, e.g. traditionally in terms of whether they are fixed or variable in nature or, more contemporarily, in terms of the cost hierarchy of unit, batch, process and facility advocated by proponents of activity-based costing (ABC). ABC itself provides yet another perspective on cost by showing how inputs have been used to undertake the variety of activities that constitute so much of organizational work. Costs can also be made informative and useful by attaching them to a great variety of cost objects, e.g. divisions, departments, market segments, products or customers. Additionally, cost information can be designed for specific purposes, e.g. relevant costs for decisions such as avoidable costs, irrelevant costs for decisions such as sunk costs, committed costs for life-cycle cost analysis, budgeted, standard and target costs for cost control, product attribute costs and cost driver rates for cost-effective design and benchmarked costs for performance appraisal.

Thus, accountants have at their disposal a very broad range of possible types of cost information that can be used to support cost management. However, it should always be borne in mind that they are typically based on outlay costs and, as the economic perspective reveals, these may not always be the most appropriate measurement of cost.

An economic perspective on cost

From an economic perspective, the sacrifice underlying cost is represented by the highest benefits foregone as a result of committing resources to a particular course of action. This, of course, can produce measurements of cost that differ from those produced by the accountant. It does, however, mean that the cost information provided is in the nature of opportunity cost and, as such, is appropriate as a basis for economically rational decision-making.

The opportunity cost of a resource can be conveniently identified using Bonbright's (1937) notion of deprival value (see also Baxter, 2003 for a summary of the application of Bonbright's concept to some areas of accounting), i.e. what is the value the resource possessor loses if the resource is lost to them (through use)? Any of three different values may represent the sacrifice in terms of opportunity foregone or lost. They are replacement cost (RC), net realizable value (NRV) and economic value (EV). The first two are market-based values drawn respectively from the current (not the historic) acquisition cost or the disposal proceeds of the resource. The third represents the best value that can be derived from using the resource within the organization (other than in the commitment being assessed). It is, thus, its value in use, i.e. the net present value of the future cash flows generated from the resource.

Table 1.1 shows the six possible permutations for these measures in terms of their relative monetary magnitudes. From this comparison the deprival value or opportunity cost of the resource can be identified on the basis described.

Where replacement of the resource is merited (i.e. where either NRV or EV exceed RC), then the commitment (or loss) of the resource will have a cost of RC. This is because that is the outlay incurred when the committed resource is replaced. This measure occurs in all but two of

Table 1.1 Resource deprival value (or opportunity cost)

Permutations	*Opportunity cost*	*Comment*
NRV>RC>EV	RC	Resource worth replacing
NRV>EV>RC	RC	Resource worth replacing
EV>RC>NRV	RC	Resource worth replacing
EV>NRV>RC	RC	Resource worth replacing
RC>NRV>EV	NRV	Resource not worth replacing
RC>EV>NRV	EV	Resource not worth replacing

the permutations. When replacement of the resource is not merited, then deprival (i.e. resource consumption through use) represents a loss that is the higher of NRV or EV.

This view of the sacrifice that leads to cost identification is not readily susceptible to use as a basis for routine systems of costs information for management. The notion of opportunity costs is too fluid for that to be possible. Not only does each resource have three potential alternative values but the determined value can change over time as the values change and create different permutations of the three possible values. However, when managing issues like the special order decision (e.g. Arnold, 1973; Drury, 2008) this type of cost measurement and analysis can be undertaken on an ad hoc basis.

Content review

Although these different conceptions of cost exist they may be, to some extent, reconcilable. The accountant can adopt the economist's opportunity cost measurements for some specific decision analyses. Moreover, the prominence of RC as the appropriate cost in the economic analysis may also lead to similarity between the two approaches. Situations where NRV or EV are the appropriate measures may be relatively rare as these permutations mean that an existing resource is not worth buying again as a replacement. Why would such an economically unattractive resource remain on the market? Thus, where historic cost represents a reasonable proxy for RC the economist and the accountant may indeed have cost ascertainment methods that have considerable compatibility.

The accountant does have to operate in the real world in a practical way. Time pressures and imperfections in information generation may well mean that the theoretical exactness of the economist may not be possible. To cope with the demands of providing a practical information service, the accountant often has to deal in proxies (Zimmerman, 1979) and heuristics (Baxter and Oxenfeldt, 1961). It is apparent already from a consideration of the nature of costs and cost management that the subject of the text is a challenging one. The chapters that follow reveal how accountants have attempted to meet this challenge. The book is divided into four themes, each of which has a distinct emphasis and which together encompass both the conventional and contemporary developments in cost management.

Cost control issues

Cost control has traditionally been a central part of the management accountant's work and in this area budgetary control has been the most prominent technique in the accountant's tool-kit. As David Marginson's chapter demonstrates this has been an enduring focus of research interest. In part this has been engendered by it being a topic where the technical is so closely related to the behavioural in the setting and use of budgetary information. The current preoccupation with the ideas of the 'beyond budgeting' school to replace traditional budget will no doubt ensure that it will continue to attract research interest. Providing an overarching philosophy for tight cost control is the concept of lean production. Thomas Kristensen and Poul Israelsen not only review this idea but also show in their case study some of the practical ways in which the accountant can produce the type of information that will help in pursuit of this cost control ideal. The use of software packages such as ERP has become increasingly common. They provide the opportunity to develop cost management information on a routine basis and Timo Hyvönen's chapter shows the potential contribution that this software can make. Japan and Germany are two of the strongest international competitors. John Innes, Takeo Yoshikawa and Peter Kajüter respectively review the cost control approaches that have enhanced their companies' competitiveness. Target costing has pushed the accountant outside the confines of their organization to find and internalize market intelligence and then support this practice by developing the information in cost tables and the commitment to cost reduction inherent in the kaizen approach. Takeo Yoshikawa and Reza Kouhy discuss the potential of kaizen costing. They do it by unfolding the philosophies and aims of kaizen costing along with a number of examples that show the practice of kaizen costing.

Cost management and decision-making

To manage costs effectively management should know the cost (and indeed the revenue) implications of their decisions. Consequently, awareness of the decision relevance of cost information is necessary. Samuel Pereira and Falconer Mitchell use mathematical analysis to provide the first complete specification of the conditions under which product costs are formally decision-relevant in both the short and long run. The implications of this for designing cost management systems are outlined. The most prominent of developments in product costing has been activity-based costing (ABC). One of its great strengths has been the wide range of decision applications that unit costs have. However, one of its great weaknesses has been the cost and administrative difficulty of its implementation and operation. Sophie Hoozée shows how this weakness can be overcome by using the most recent manifestation of ABC – time-driven ABC. David Dugdale reviews the thought-provoking ideas of the theory of constraints. This approach negates the value of much of the conventional cost management information and proposes the use of throughput measures to provide a basis for management decisions. It is a radical approach which casts doubt from a very practical perspective on much of what the accountant normally does. Trond Bjørnenak and Katarina Karbøe describe how cost management has inherent dynamics that show how the whole area is one where change and development has become a dominant feature. It is one which raises many important issues about how relevant managerial decision-making can best be supported by cost information in a fast-changing context. Finally, Lino Cinquini and Andrea Tenucci discuss one of the most important but challenging decisions that organizations have to make. That is the provision of capacity. Not only is it a challenging decision involving future forecasting of output volumes but it impacts greatly on the unitization of costs and therefore has the potential to influence pricing decisions and profit measurement. As the chapter shows, these uses have stimulated a lot of analysis and research on capacity cost.

Inter-organizational cost management perspectives

Ideas such as the value chain have ensured that cost management has a strong inter-organizational perspective. Willie Seal and Ian Herbert highlight this in analyzing the costs incurred by those supplying the services that comprise the overhead costs of an organization. Morten Jakobsen extends this notion to component suppliers and describes the collaboration obtained from the use of open book accounting. An increasingly common feature of the modern firm is the continual consideration and justification of what the organization does. Screening internal functioning against the option of outsourcing is another way in which external organizations can play a part in cost management. Lars Nielsen's chapter not only identifies the mechanics of outsourcing but also shows how the cost management ideas on the topic have been outpaced by developments in the broader management literature. In addition to the upstream part of the value chain, the downstream can also be considered. Trond Bjørnenak and Øyvind Helgesen do this in their analysis of how the customer can become a cost object by profiling customer profitability and using the results to revise relationships and identify those customers whose continued business is vital to the firm's ongoing success.

Strategy and cost management

The idea of the accountant becoming a business partner and thereby more heavily involved in strategy formulation and implementation is a topical one (CIMA, 2010). Cost management is an area where support for strategy can be quite direct, e.g. cost leadership. Many of the cost containment approaches outlined above can contribute to this type of strategic objective. However-as this theme shows, accounting can also offer support for other strategies and strategic activities. Chris Carr, Katja Kohlmainen and Falconer Mitchell use a contingency framework to identify different corporate typologies where strategic decision-making (and the accountant's role therein) may differ. Riccardo Giannetti shows how an activity that can be central to strategy – i.e. quality activity – can become a focus for accounting reports. Alessandro Marrelli highlights the work done to allow accounting and costing to aid the sustainability objective, which is becoming more and more significant to business. Performance measurement is necessary to manage strategies and to provide feedback to management. Rainer Lueg and Hanne Nørreklit show that decisions on strategic objectives should be linked to cost and profitability analysis.

Lino Cinquini, Falconer Mitchell, Hanne Nørreklit and Andrea Tenucci examine the methodology of performance measurement and show that managerial culture and style can be very different in a cost management context. Finally, Al Bhimani's chapter examines how the macro trends of globalization and digitization impact on the practices of the management accountant, including their efforts to manage costs.

Conclusions

Cost management is an activity that can play a major role in improving organizational performance. A wide variety of techniques have been developed (many in recent years) to provide the accountant with an extensive tool-kit for cost management. However, as the following chapters show, cost management is more than simply a technical matter. It is socio-technical in nature and encompasses issues such as management style, the role of the accountant, the stresses of cost reduction and the challenges of organizational change. Cost management means cost changes and the implications of these, both financial and behavioural, need to be understood as a foundation for management action. Hopefully this text will contribute to this understanding.

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Part I

Cost control issues

2

Budgetary control

What's been happening?

David Marginson

Introduction

The subject of this chapter is budgetary control. Although not defined in the literature, budgetary control may be considered to represent how organizations seek to ensure the efficient and effective utilisation of financial resources. For the purposes of this chapter, *traditional* budgetary control refers to the idea of ensuring the efficient and effective utilization of financial resources through processes of monitoring, feedback, motivation, variance correction, and performance evaluation at the level of the individual responsibility centre. Budgets (resources) and budgeting (resource allocation) may be considered to form part of the overall budgetary control process.

Cost management, the broader subject of this book, is inexorably connected to budgetary control. For instance, both concern resource allocation, both implicate responsibility accounting as the framework for resource allocation, and both ultimately depend on 'people' for their execution. Cost management is essentially about controlling costs, and budgets, through responsibility accounting, are essentially about 'controlling costs through people' (Argyris, 1952). In short, budgetary control, involving budgets and budgeting, has traditionally represented one dimension of, or approach to, cost management.

The aim of the chapter is to review recent literature on budgetary control. A particular concern is to assess the literature published since around 2000 in terms of its contribution to our understanding of how organizations are seeking to control costs in an increasingly globalized economy. The term 'globalization' tends to be an all-encompassing phrase implying, for instance, hyper-competition, fast-moving environments, rapid technological advancement, increased market volatility, and – in terms of organizational architecture – a highly organic arrangement as a basis by which firms may seek to cope, through an emphasis on innovation and learning, with the demands of globalization. The point is that more complex and more flexible organizational arrangements, including 'modern' management philosophies such as flexible working and empowerment (Wilkinson, 2002), are recognized as holding non-trivial implications for traditional budgetary control practices and procedures (Otley, 1994; 1999; Libby and Lindsay, 2007a). This chapter therefore also aims to explore some of these implications, and what they may mean for how budgetary control can, is, and should be exercised in practice.

In terms of 'should', the now well-recognized and well-established Beyond Budgeting Roundtable (BBRT), is premised on the view that traditional budgets are no longer appropriate for today's organizations and should therefore be abandoned (Hope and Fraser, 2003). The BBRT represents a group, the members of which are individuals and organizations interested in managing without budgets. Membership in the BBRT is worldwide with the largest membership base in Europe (Libby and Lindsay, 2010). In this chapter, the term Beyond Budgeting (BB) Movement is used to represent both the BBRT and associated literature.

In terms of 'is', there is recent research which suggests that companies may be adapting their budgetary practices in favour of more flexible forms of resource allocation and budgetary control (see e.g. Neely, Sutcliff and Heyns, 2001; Marginson and Ogden, 2005; Østergren and Stensaker, 2010). In terms of 'can', survey evidence continues to suggest that traditional budgetary control practices may remain a key mechanism by which today's organizations seek to control costs (Libby and Lindsay, 2010), with budgetary information being used for the purposes of planning, communication, co-ordination, motivation, and/or performance evaluation (Dugdale and Lynne, 2004). The role(s) of budgets may also include benchmarking, and/or ritual/tradition (Hansen and Van der Stede, 2004). The use of traditional budgetary control procedures includes the continued use of traditional responsibility accounting frameworks. There is little evidence at present to suggest that firms are dispensing with such frameworks as a basis for allocating resources and exercising budgetary control (cf. Rowe, Birnberg and Shields, 2008). This mix of normative argument and empirical evidence raises questions about what we might know and might not know about the scope, practice and consequences of budgetary control in today's organizations. As part of its remit, this chapter will attempt to provide some insight into the current 'state of understanding'.

The chapter begins by outlining traditional budgetary control and responsibility accounting. The body of the chapter is devoted to reviewing recent literature on budgetary control. In this context, the chapter will raise some of the key issues, outline conceptual and practical developments (particularly notions of Beyond Budgeting and Better Budgeting), present the recent research evidence, and suggest areas for further research. To foreshadow the forthcoming discussion, and to borrow and adapt a famous phrase, the chapter concludes by suggesting that, rather than 'Beyond Budgeting' (Hope and Fraser, 2003) or even 'Better Budgeting' (Banham, 2000) what we may sometimes find in practice is 'budgetary control, but not as we know it'. A diversity of budgetary practices is noted. The extent of this diversity suggests that today's organizations may be identifying different ways of addressing how to exercise budgetary control for a globalized environment. A growing diversity of practice provides much scope for scholars to document and understand these practices and associated issues.

Traditional budgetary control and traditional responsibility accounting

A cursory read of 'standard' management accounting textbooks often reveals something of a disjuncture between how traditional budgeting is described and how responsibility accounting is explained. The two topics are often discussed separately, in separate chapters. This is surprising, given the inexorable link between the two. Traditionally, responsibility accounting has provided the structure or framework through which traditional budgetary control is exercised. To separate the two might give the impression that the two are disconnected. The following presents their nexus.

Exercising traditional budgetary control through traditional responsibility accounting

Normally, in a context where it is deemed necessary to decentralize at least some decision-making, it also becomes necessary to disperse decision-making authority over a proportion of the organization's financial resources. The manager must have the resources to do the job!

Amounts distributed to the major decision points in an organization will depend on all sorts of factors. These can include, for instance, organizational size and structure, organizational performance, strategy, top management views, organizational culture, and so on. Regardless of the amounts involved, the quid pro quo to resource allocation is normally that those given the financial resources to support their decision-making must account for how they then use these resources in, supposedly, the furtherance of organizational objectives. Budgeting has long been viewed as the cornerstone of management control (Otley, 1978; 1987). Management control refers to the idea of organizations attempting to ensure, through the use of information-based routines, systems and procedures (Simons, 2000), the cooperation of organizational participants (managers in our case) toward the achievement of organizational aims and objectives.

For some time now, both resource allocation (budgeting) and accountability (budgetary control) have been underpinned by notions of responsibility accounting. The concept of responsibility accounting is simple and appealing. It states that, in terms of accountability – which is normally discharged through performance evaluation – only factors under the manager's *control* should be considered when his/her performance is evaluated (Choudhury, 1986). Basically, responsibility accounting seeks: 'To identify those financial elements in a certain area of activity which form a controllable set and to appoint a person to be responsible for managing this set of financial elements' (McNally, 1980: 165).

The corollary of this and other similar definitions of responsibility accounting (e.g. Drury, 2000) is that a person or persons should *not* be held responsible for those financial elements they are unable to control. Nor should they be rewarded for revenues/cost savings that are not the result of their own efforts. This 'principle of controllability' is the fundamental tenet upon which the concept of responsibility accounting is based (Choudhury, 1986). The underpinning rationale is that it would be somehow unfair to hold people accountable for expenditures and/or revenues that they did not authorize or could not 'manage' in some way. For convenience, this chapter will focus on notions of expenditure as the basis for exploring budgetary control. We shall return to the issue of controllability later on in the chapter. The concept of responsibility accounting has an inherent appeal to equity, and is consistent with traditional organization theory, which advocates a relationship between authority, responsibility, and controllability (Filley and House, 1969; Urwick, 1939).

Responsibility accounting is traditionally or typically operationalized as a hierarchy of responsibility centres. The full extent of these centres can range from investment centre(s) at the apex of the firm, through profit centres, to revenue and cost centres at middle- and lower-ranking management levels. It is not my intention to explain these centres here. There are many adequate descriptions in standard management accounting textbooks (see e.g. editions of Drury, 2000; Garrison, Noreen and Brewer, 2008; Merchant and Van der Stede, 2007). The two fundamental points to make at this juncture are: (1) that single individuals are normally placed in charge of a given responsibility centre, and (2) that responsibility accounting is typically the basis by which budgetary control is both supposed and purported to operate (McNally, 1980). Responsibility accounting systems identify the budget-responsible manager to be held accountable for the resources under his/her control (Ezzamel and Hart, 1987).

Organizational context

Responsibility accounting's role as the framework for budgetary control can be traced to the development of the bureaucratic multi-division 'M-form' structure pioneered in the early part of the 20th century by organizations such as Du Pont and General Motors (Chandler, 1962; 1977). This type of organizational configuration was viewed as providing the stability, certainty, and clearly demarcated independence of managerial responsibility deemed essential for the execution of budgetary control through responsibility accounting. Responsibility accounting frameworks permit the decentralization of decision-making to major decision points in the firm based on the organization chart. Resources can be divided and sub-divided through this framework, and budgetary control exercised by holding the responsibility centre manager accountable for the resources allocated to his/her designated area of responsibility. In this context, budgetary control has traditionally proceeded via monitoring, feedback, motivation, and performance evaluation. The cybernetic model of control has long underpinned and informed budgetary control within the quintessentially bureaucratic 'M-form' organization (Bartlett and Ghoshal, 1993; Hofstede, 1978).

Challenges and critiques

While notions of responsibility accounting have their roots in classic organization theory (Ezzamel and Hart, 1987), the historical link between organizational architecture and responsibility accounting outlined above implies a contingent relationship (Donaldson, 2001). That is, if the organizational architecture changes, so should how budgetary control is organized and exercised (Bruns and Waterhouse, 1975; Waterhouse and Tiessen, 1978). Although not explicitly stated, this contingency argument underlies criticisms about budgeting and budgetary control (discussed in due course). Put another way, given the apparent dovetailing of organization structure, responsibility accounting framework and budgetary control process, the move, in some industries at least (e.g. electronics), to more complex and flexible organizational architectures is seen as representing a non-trivial challenge to traditional methods of budgetary control (Hope and Fraser, 2003).

The challenge includes a problematization of budget variance analysis. Traditional methods of budgetary control include the idea of conducting variance analysis at the level of the individual responsibility centre. As Ansari noted, however, as early as 1979, such a compartmentalized approach to budgetary control sits awkwardly with the jurisdictional and decisional interdependencies which characterize more 'open', organic organizational forms (Emmanuel, Otley and Merchant, 1990). The basis of Ansari's thesis is that, in the absence of clear-cut allocations of tasks and resources, organizations need to move away from 'isolated' variance analysis conducted at the level of the individual responsibility centre, and towards a more integrated or collective (potentially unit- or organizational-level) analysis of budget variances based on an understanding of strategic priorities vis-à-vis competitor actions. That is, an equally more 'open' approach to variance analysis is required, one which will likely necessitate cooperation rather than competition among managers, with regulation of the whole (organization) taking precedent over regulation of the parts (individual responsibility centres) (Ansari, 1979: 151). To encourage such behaviours, Ansari (1979: 151) advocated that performance should become 'more an exercise in problem solving and less a method of assigning responsibility'. For Ansari (1979: 149), variances computed under his proposed system 'more fully reflect the interacting nature of most organizations and provide better control information'.

Besides Ansari's (1979) critique of budget variance analysis, there exist a multitude of more general criticisms of traditional budgetary control. These more general criticisms include the following (this list is indicative, not exhaustive):

- that the exercise of traditional budgetary control through variance analysis, motivation and performance evaluation at the level of the individual responsibility centre constrains responsiveness and flexibility, and is a barrier to change;

- that traditional budgeting and budgetary control is unnecessarily time-consuming;
- that budgets are rarely strategic and are often contradictory;
- that traditional budgetary control encourages 'gaming' and perverse behaviours;
- that traditional budgets do not reflect new organizational forms and arrangements;
- that traditional budgets are developed and updated too infrequently, usually annually;
- that traditional budgets are often based on unsupported assumptions and guesswork;
- that budgets and budgetary control make people feel under-valued.

The above criticisms are well-rehearsed; complaints about budgets have been repeatedly voiced and documented ever since Argyris (1953) first identified 'human problems with budgets'. Fine; critique is a fundamental aspect of academic enquiry. Further, while clear conclusions have yet to be reached (Hartmann, 2000), there is considerable behavioural research in accounting to suggest that many of the 'human problems with [traditional] budgets' may well be justified (although later in the chapter, evidence is presented which suggests a more positive or psychologically functional role for budgets). Given these points, we might well have expected the budgetary control literature to offer alternative suggestions as to what could or should replace traditional budgetary control if traditional budgetary control procedures are seen as inappropriate for the increasingly prevalent N-form organization. (The term 'N-form' is often used to distinguish supposedly complex, highly organic, 'third-wave', knowledge-based, information-age companies operating in a globalized environment, from the more traditional 'M-form' archetype.) However, this is currently not the case. It is noticeable that the criticisms of budgets have generally not been matched with alternative suggestions. Ansari's (1979) study was discussed above as it is one of the very few studies to suggest how budgetary control could and should be conducted within organic organizational architectures.The other major exception is the BB Movement.

Of course, the BB Movement has also levelled a host of criticisms at traditional budgetary control. It continues to do so (BBRT; Libby and Lindsay, 2010; see also Libby and Lindsay, 2003a,b, for a rehearsal of the BB Movement's case against traditional budgeting).There is little which is new in these criticisms. Most if not all of the misgivings stated in the BB literature tend to reflect or rehearse the general and enduring discontent about budgets outlined above. Parker (2002), in his textbook analysis of budgets, outlines the critical discourse on budgeting in the 1930s and 1940s. He points out the stark similarities of this discourse to that presented by the BB movement some 60 years later.

What is different is that BB represents a systematic effort to create a conceptual antithesis to traditional budgeting and budgetary control. The BB Movement refines some of the criticisms, and, significantly, it *does* also offer potential 'solutions' to the perceived problems with traditional budgets. For instance, Hope and Fraser (2003a: xx) argue that traditional budgetary practices have degenerated into what is akin to 'fixed performance contracts' that 'force managers at all levels to commit to delivering specified outcomes, even though many of the variables underpinning those outcomes are beyond their control'. Hope and Fraser advocate a move away from focusing on individual responsibility and accountability (as via the 'tyranny of fixed performance contracts') and towards 'relative improvement contracts' which, in essence, emphasize a more integrated if still individual-level approach to budgetary control (the BB's 'solutions' and propositions are elaborated below; see Libby and Lindsay, 2003a,b, for a fuller coverage).

An oft-repeated criticism of traditional budgetary control is that the practice of budgeting reinforces vertical chains of command (made possible through the use of hierarchically-based responsibility accounting systems). As such, budgets are 'the primary barrier to contemporary organizational success' (Hope and Fraser, 2003), particularly for the 'third-wave' N-form organizational archetype. Today's N-form organizations do not need a strengthening of vertical chains of command; rather, the need is for flexibility and responsiveness, including – or particularly at – middle-management levels (Bartlett and Ghoshal, 1993; Hope and Fraser, 2003). Within the N-form organizational model, middle- and lower-ranking managers can be, and have been observed as being, the 'primary initiators' of entrepreneurial activity (Bartlett and Ghoshal, 1993; Marginson, 2002). Increasingly, it seems that middle-level managers are being charged with the task of creating and responding to new opportunities for the organization (Dutton et al., 1997). It is this more 'grassroots' approach to strategy-making (Marginson, 2002) which, according to many, should not be constrained by traditional budgetary control systems (Hope and Fraser, 1997; 2003). But, among other things, this is to ignore or downplay the role that budgetary controls may play in 'limiting innovative excess' (Dent, 1990).

Recent practitioner literature has also been highly critical of traditional budgetary control. Perhaps prompted by Hope and Fraser's 1997 article, a number of publications appeared in the period 1997 to 2003 advocating the demise of traditional budgets. The publications include: Anon (2000), 'Rethinking life without budgets'; Babbini (1999), 'Reality check: is traditional budgeting under siege'; Bunce (1999), 'Budgets: the hidden barrier to success in the information age'; Bunce and Fraser (1997), 'Beyond Budgeting'; Gurton (1999), 'Bye bye budget ... the annual budget is dead'; Gary (2003), 'Why budgeting kills your company'; Hendersen (1997), 'Does budgeting have to be so troublesome?'; Libby and Lindsay (2003a,b), 'Budgeting – an unnecessary evil'; Libby and Lindsay (2003c), 'Booting the budget: how the BBRT envisions a world without budgets'; Marcino (2000), 'Obliterate traditional budgeting'; Marshall (2003), 'Beyond budgeting'; and Oldham and Mills (1999), 'Abandoning traditional budgeting'. Jensen (2001; 2003) offers a more academic but no less forceful critique of traditional budgeting. He argues that: (1) 'Corporate budgeting is broken', so ' let's fix it' (2001), and (2) traditional budgets encourage 'people to lie' (2003). In addition, or more precisely at the center of the debate, there are, of course, the many articles by Hope and Fraser (Hope and Fraser, 1997; 1998; 1999a,b,c,d; 2000; 2001; 2003a,b,c; Fraser and Hope, 2001).

I have included titles to some of the articles to illustrate the emphasis or flavour of the practitioner debate. It is, or was, very much about problems with traditional budgetary control. Based on this sample of publications, it appears that the view of some at least is that, because of the problems they create, budgets should be abandoned. This implies that few see adaptation or modification as a practical alternative. Budgeting is budgeting; budgetary control either occurs in its traditional form or not at all. (As will be discussed below, it is not clear from the BB debate whether the issue is no budgeting whatsoever, or budgetary control of a different form. The catchy term 'Beyond Budgeting' signals something different. However, descriptions provided by the BB Movement may amount to little more than a repackaging of budgetary control procedures.)

Others, however, are more sanguine. This literature suggests that modification and adaptation *is* possible; what is needed is 'Better Budgeting', not necessarily the compete obliteration of budgets. Neely, Bourne and Chris (2003), for instance, question whether it should be BB or 'Better Budgeting'. Banham (2000) discusses the notion of 'Better Budgeting', as does Colman (2004). Cokins (2008) advocates simply 'Repairing the budgeting process'. More radically, in terms of 'Better Budgeting', Newing (1994) suggests 'Out with the old, in with the new'. Durfee (2006) considers 'Alternative budgeting'. Needleman (2005) suggests 'New tools make for better budgeting'. Orlando (2000) argues that 'budgeting pain' can be converted into 'budgeting gain'. Fanning (1999) speculates on 'Budgeting in the 21st century'. In contrast with Libby and Lindsay (2003a,b), Wallander (1999) refers to budgeting as 'a necessary evil'. Greenberg and Greenberg (2006) similarly suggest that firms need budgets, while Prendergast

(2000) even dares to suggest that '[traditional] budgets hit back'. Neely et al. (2001) document several organizations – including Borealis, BP, and Ford Motor company – that have apparently modified and adapted their budgetary control practices to meet organizational purpose and needs (some of the adaptations are outlined below). Neely et al. (2001: 2) further suggest that all 15 organizations involved in the research 'were actively seeking to improving their planning and budgeting, but for different reasons'. These reasons included (1) to enhance cost efficiency, (2) to improve forecasting ability, and (3) to encourage managers to think more strategically (Neely et al., 2001: 2). The reported developments and modifications are labelled as examples of 'Better Budgeting', but what is 'Better Budgeting'?

Better budgeting

'Better Budgeting' appears an all-encompassing concept, encapsulating a range of ideas. Indeed, Neely et al. (2001) suggest that 'Better Budgeting' can include:

Activity-based budgeting

Activity-based budgeting (ABB) is an approach to budgeting which builds on well-established ideas such as activity-based costing and activity-based cost management. The aim of ABB seems to be to ensure that resource allocation decisions are consistent with activity-based management analysis (to the extent this occurs; Connolly and Ashworth, 1994; Neely et al., 2001). More specifically, a 'Closed-Loop Model' of ABB (Consortium of Advanced Manufacturing [CAM-I], see Hansen and Torok, 2004) creates 'an explicit model of the organization's activities, processes, resources, and capacity that it uses to generate plans and budgets' (Hansen, 2010: 16). Hansen and Torek (2004) claim several benefits of the Closed-Loop ABB Model. These include the idea that the Closed-Loop Model can link resource capacity explicitly with resource demand, thereby helping to avoid building a budget solely on extrapolation of prior data. Other claimed benefits include a reduction in 'gaming', and a 'more meaningful' budget. Generally, ABB is meant to be computer-based, allowing for a quicker and simpler remodelling of budgetary needs as events unfold and the environment changes (Hansen, 2010). For these and other reasons, advocates claim that ABB can result in cost savings of between 10% and 20% through 'better methods of working and the elimination of bureaucracy' (Brimson and Antos, 1999; Brimson and Fraser, 1991).

Zero-based budgeting

Zero-based budgeting (ZBB) is, perhaps, better understood than ABB. Its inclusion as part of 'Better Budgeting' is interesting, not only because of the recognized limitations of ZBB (e.g. the degree of effort involved), but because neither ZBB nor ABB seem to address the documented shortcomings of traditional budgetary control, as set out above. For instance, just like traditional budgeting, ZBB can be enormously time-consuming (Wetherbe and Montanari, 1981)!

Rolling forecasts and budgets

A rolling budget is a forecast that maintains a constant forward-looking time horizon, normally between 12 and 18 months (Clark, 2007). Several potential benefits over traditional budgeting and budgetary control are claimed. They are that (1) planning can occur more often throughout the year rather simply at year end, (2) the less detail allows rolling budgets to be updated more easily, (3) changes can be quickly incorporated into the plan, and (4) managers can maintain a connection with a longer time horizon through the use of rolling forecasts and budgets (Hansen, 2010). There is evidence to suggest that organizations may be adopting – or at least contemplating adopting – rolling forecasts and budgets (Ekhom and Wallin, 2000; Comshare, 2001; Neely et al., 2001; Lynn and Madison, 2004). As with ABB, however, the purported benefits of rolling budgets have yet to be subjected to empirical analysis. This is despite the growing use of rolling forecasts, and in spite of the fact that the notion of rolling forecasts and budgets has existed for some considerable time (see Owen, 1949: 598).

Value-based management

Value-based management is described as having three core elements: beliefs, principles, and processes (Neely et al., 2001). The key to value-based management is that all expenditure plans 'should be evaluated as project appraisals and assessed in terms of the shareholder value they will create' (Neely et al., 2001: 10). It is the linking of planning and budgeting to strategy and shareholder value which enables value-based management to be seen as part of 'Better Budgeting'. To date, however, value-based management appears more of a concept (Burton, 1996) than an empirical practice. Its use in organizations has yet to be documented.

Profit planning

As the title suggests, profit planning is about planning, specifically planning and assessing the extent to which an organization's responsibility centres can and should generate sufficient cash, create economic value, and attract sufficient financial resources for investment. Again, however, few examples of its practical application have thus far been reported.

Beyond budgeting

To the extent that BB represents 'better budgeting', it is, perhaps, if 'better budgeting' means dispensing with traditional budgetary control. The main idea of BB, as envisaged by Jeremy Hope and Robin Fraser (1997; 2003), is to abandon budgetary contracts and accompanying ex ante performance targets. Instead, the key argument is that organizations should follow a set of principles that will 'set them free' from the 'annual performance trap' that is associated with traditional budgets (Hope and Fraser, 2003). The principles of BB include the following:

- the use of benchmarking and other forms of relative performance evaluation;
- the replacement of annual plans by rolling forecasts;
- increased decentralization of decision-making;
- other means of empowering managers and other employees (Hope and Fraser, 2003).

The principles of BB are expanded, developed, revisited and revised in a series of publications (Hope and Fraser, 1997; 2003). For instance, in terms of relative performance evaluation, Hope and Fraser (2003: 42) argue for the use of 'relative performance contracts' by which managers, although still expected to reach high standards, are nonetheless 'evaluated and rewarded after the event according to how they performed in the light of circumstances that actually prevailed and, perhaps more importantly, how they performed against their peers'. For a full elaboration of each of the principles of BB, the reader is referred to Hope and Fraser's 2003 publication. The point to highlight here is that these earlier publications (Hope and Fraser, 2000) show 12 principles of BB. Becker, Messner and Schäffer (working paper) chart the development of BB through a series of publications, showing how the associated principles are seen to develop and change over time (Hope and Fraser, 1997; 2000; Fraser and Hope, 2001; Bunce et al., 2001; Hope and Fraser, 2003).

Beyond budgeting, better budgeting, or diversity in budgetary control practice?

The BB Movement continues to promote its principles through the activities of the BBRT. The aims of the BBRT seem almost missionary: to persuade or convince as many organizations as possible to convert to the BB way of thinking and abandon traditional budgetary control (Daum, 2003). Given the attempts at persuasion, the persuasive nature of the principles, the fact that the BB message originates from practice (Libby and Lindsay, 2010), and the general and continuing disquiet with traditional budgetary processes – as documented in both practitioner and academic literatures – we might expect that the concept of BB would or should prove as practically popular as other management accounting initiatives, such as activity-based costing and the balanced scorecard. Yet, this appears not to be the case. Hope and Fraser support their arguments with evidence that a number of companies, particularly Scandanavian companies (e.g. Svenska Handelsbanken), have abandoned budgeting in its traditional form, and have remained successful, if not more successful, after so doing. That said, the number of examples of firms apparently abandoning budgets that the BB movement draws upon to support its assertions, while growing, still appears extremely limited, even after more than ten years of the BB message. Hope and Fraser, in their various publications, still draw heavily and often on just *one* company, Svenska Handelsbanken, as an exemplar of a firm operating BB. Interestingly, this firm's abandonment of traditional budgeting preceded rather than followed the development of the BB concept.

The apparently limited 'success' of the BB message also becomes apparent if we consider available survey evidence on the budgetary control and other management accounting practices and procedures employed by firms. Notwithstanding observed modifications (discussed below), survey evidence continues to suggest that traditional forms of budgeting and responsibility accounting persist throughout the organizational environment. The surveys indicate that the vast majority of responding companies in Europe (irrespective of country, industry or size) still operate with formal budgeting systems along hierarchical lines (see Eckholm and Wallin, 2000; Neely et al., 2003; Dugdale and Lyne, 2006). Evidence from North America also points to the retention of traditional budgeting and budgetary control as part of overall cost management (Umapathy, 1987; Libby and Lindsay, 2010).

This survey evidence raises an interesting question: given the apparently increasing prevalence of organizational architectures which problematize the exercise of traditional budgetary control, why is it that more firms are not following the advice of the BB movement and abandoning budgets as a form of cost control?

Perhaps one answer is that, rather than dispensing with budgeting and budgetary control altogether, firms are instead modifying and amending their practices and procedures as they see necessary (Epstein and Manzoni, 2002). The thoughtful and extensive report by Neely et al. (2001) documents several such cases. For example, the study reports how BP apparently no longer uses the term budgeting, and how, for this major multinational enterprise, planning is based around competitor and market expectations. In this context, broad targets are set top-down, while detailed operational plans are made bottom-up (Neely et al., 2001: 36).

Other examples documented by Neely et al. (2001) include Electrolux, which uses an annual planning cycle with rolling quarterly re-forecasting, Ford Motor Company, which has separated budgets from forecasts and cost control from the 'motivation cycle', and Volvo.

Volvo apparently uses 'performance planning' rather than budgets based on expectations of income, quality, product development, and projected sales volumes over a two-year planning horizon. All of the examples outlined in Neely et al.'s (2001) report suggest varying degrees of modification and adaptation of traditional budgetary control. Taken together, they suggest, not necessarily BB or 'Better Budgeting', but a possibly growing diversity of budgetary control practices and procedures. Indeed, it is difficult to say whether the examples outlined by Neely et al. (2001) represent either BB or 'Better Budgeting', not least because of the lack of precise criteria by which to judge what may be either BB or Better Budgeting. It is only possible to speculate that there may be a growing diversity of budgetary practices, given that extant research offers little insight into the previous 'state of play'.

Contribution of the academic literature

It would be useful at this juncture to turn to the academic literature in a bid to offer further insight into firms' developing budgetary control practices. As it is, recent academic literature has little to say on the subject of budgetary control practice. The author has at his disposal a file which, at the time of writing, contains over 350 *academic* references on budgets, budgeting and budgetary control. Of these, approaching 50 have been published since the year 2000. Of these, the vast majority continue to explore, revisit and finesse budgetary control issues first established in the 1950s, 60s and 70s. For instance, studies have continued to examine budget participation (Brown and Evans, 2009; Chalos and Poon, 2001; Chong, 2002; Chong and Bateman, 2000; Chong and Chong, 2002a,b; Chong, Eggleton and Leong, 2005a,b; 2006; Fisher, Frederickson and Peffer, 2000; 2002; 2006; Lau and Buckland, 2000; 2001; Lau and Lim, 2002a,b; Maiga, 2005a,b), budgetary slack (Davila and Wouters, 2005; Fisher, Maines, Peffer and Sprinkle, 2002; Lau and Eggleton, 2002; 2004; Stevens, 2002; Webb, 2002), and the link between budget participation and budgetary slack (Dunk and Lal, 1999; Lau and Eggleton, 2003; Maiga, 2005a). Several investigate the procedural and distributive fairness of performance evaluation procedures involving budgetary and other measures (Lau and Sholihin, 2005; Lau and Tan, 2006; Sholihin and Pike, 2009), while others consider the roles of budgets (Epstein and Manzoni, 2002; Hansen and Van der Stede, 2004), and the link with strategy (Abernethy and Brownell, 1999). Examining the behavioural aspects of budgeting remains a popular research topic (Emsley, 2001; Lau and Chong, 2002; Lau and Ng, 2003; Otley and Fakiolas, 2000; Otley and Pollanen, 2000; Quirin, Donnelly and O'Bryan, 2000; Quirin, O'Bryan and Donnelly, 2004; Subramaniam and Ashkanasy, 2001; Subramaniam and Mia, 2001; 2003; Tsui, 2001; Van der Stede, 2000; 2001; Walker and Johnson, 1999; Wentzel, 2002).

Such research is undoubtedly adding to our understanding of budgeting, particularly the behavioural and psychological aspects of budgetary control. At the same time, the focus of recent studies means that firms' budgetary practices and procedures have gone largely unexplored. In particular, little is currently known about whether these practices are changing in line with changing organizational architecture, and if so, what the developments may entail. Yet, based on the findings of a small but growing body of literature, there may be much more to learn, not only about how budgetary control may be exercised in today's organizations, but also about the behavioural consequences of any 'new' practices and procedures.

Contemporary budgetary control practices

Østergren and Stensaker (2010) is a recent study which explores 'Management control without budgets' (see also Libby and Lindsay, 2007 for a discussion of Svenska Handelsbanken). Based on a case study of a large Norwegian multidivisional oil and energy company with 30,000 employees worldwide, the authors document an example of what they claim is BB in practice by examining its implementation in two of the company's business units. Several issues are investigated and several features illustrated. Conceptually, Østergren and Stensaker (2010: 5) argue that, while 'Beyond budgeting consists of similar activities as budgeting, such as target setting, forecasting, and resource allocation', the difference is that, with BB, 'no budget is allocated in advance and the processes are separated in time'. The authors proceed to list a number of key differences between budgets and BB under the headings 'target planning', 'resource allocation', 'challenges', and 'benefits' (Østergren and Stensaker, 2010: 5, Table 1).

Empirically, Østergren and Stensaker (2010) offer insights into how the Norwegian multinational, pseudonym Oilco, is seeking to exercise management control without budgets. The company's management is reported as having decided, in 2005, to 'abolish budgets completely' and to instead 'introduce Beyond Budgeting' (Østergren and Stensaker, 2010: 8). The reasons proffered for this decision appear to echo the well-documented criticisms of traditional budgetary control. For example, one reason was that the budget was perceived as inflexible and inappropriate in fast-changing circumstances. The budget was also considered to have created a false perception that the future was manageable. Budgeting was viewed as an expensive and time-consuming process, while the budget was 'known' within the company to 'create a budgetary game when it came to resource allocation' (Østergren and Stensaker, 2010: 9). This game was expected to be eliminated with the removal of the budget.

BB at Oilco was introduced via a set of 'principles'. To some extent, the 'principles' applied reflect or rehearse the principles of BB. For instance, corporate management considered that 'performance should be about outperforming peers' (relative performance evaluation). Managers were empowered to act with flexibility, and respond with initiative and judgement to unfolding events (increased decentralization of decision-making), while a further principle was that resources 'should be available or allocated case by case' (removal of annual budgetary plans).

It is not clear from the study to what extent Oilco's corporate management was influenced by the BB literature. Irrespective of this, Østergren and Stensaker (2010) report several features of the company's approach to cost management which help to advance our understanding as to how firms may operate without traditional budgetary control procedures and practices. It is not within the scope of this chapter to repeat all of the features here; the reader is referred to Østergren and Stensaker (2010) for a full account. Perhaps the key ones to note are: (1) centralized target-setting involving strategically orientated targets, (2) a pursuit of these targets based on relative rather than fixed principles (where unit costs and the relationship between costs and revenues is key, rather than 'remaining within budget'), and thereby (3) resource allocation as a dynamic process 'that can happen any time during the year depending on whether subgroups come up with a good project . . .' (Østergren and Stensaker, 2010: 16).

Østergren and Stensaker (2010) is the first study to explicitly investigate budgetary practices through the prism of BB. The authors note the current dearth of research into how alternative management control systems function in practice. Østergren and Stensaker (2010) present their study as a possible springboard for further research into BB practices and concomitant issues and challenges. Interestingly, while not explicitly presented as research into BB, several other studies do appear to offer insight into some of the issues and challenges which may arise from non-traditional budgetary practices.

Marginson (1999), for instance, reports how one organization, in a seemingly radical break with tradition, removed evaluation and accountability from the budgetary process for all managers except the most senior. There was a deliberate move away from respecting the controllability principle, in that, for example, the chief finance officer had financial accountabilities for achieving contribution and profit targets for the organization. Yet, neither his remit of authority nor his line-management responsibilities provided the necessary degree of formal decision-making authority to enable personal control over the activities necessary to achieve the expected contribution and profit targets. Instead, the company as a whole operated with a heavy emphasis on social controls and 'mutual accountabilities' as a basis for gaining the cooperation of managers towards pursuing organizational objectives (Marginson, 1999). In the context of this more informal and collective approach to management control, initial budgetary allocations could be revised and modified as events unfolded and circumstances changed during the budgetary period. This flexibility of resource allocation was supported by the use of rolling forecasts. Several of the organization's budgetary procedures documented by Marginson (1999) appear consistent with notions of BB.

Marginson and Ogden (2005) similarly describe a seemingly radical budgetary control process involving target-based flexibility and 'cost consciousness' as bases by which their case-study organization sought to manage the tension between the need to achieve 'tight' cost control on the one hand, and the need to pursue continued 'creative innovation' on the other (Simons, 1995; 2000). A key aspect of cost control at the research site was how managers were empowered to forgo pre-set budgetary targets for 'strategic reasons'. Interestingly, however, Marginson and Ogden (2005) analyse how a proportion of managers preferred instead to focus on achieving initial budgetary targets, not because of the 'threat of accountability or the promise of reward' (again, formal accountability and reward had been decoupled from the budgetary process), but for the reason that doing so offered a degree of structure and certainty to counter the experience of role ambiguity. Such evidence provides some initial insight into the potential behavioural consequences of BB-type practices. In the present case, it was described as a 'design-behaviour' paradox. 'Where strong reliance on budgets is no longer deemed suitable, or desirable, from an organizational point of view, managers may react, for psychological reasons, by maintaining or increasing their commitment to budgetary targets' (Marginson and Ogden, 2005: 451).

Retaining traditional budgetary control practices

In contrast to the above two studies, Frow, Marginson and Ogden (2005; 2010) document a major multinational organization which has largely retained traditional budgetary control practices and procedures, including the use of traditional responsibility accounting centres. The company does so in the context of attempting to promote continuous innovation and learning throughout the firm, given, for this organization, a *highly* globalized environment. As reported by the authors (Frow et al., 2005), one of the issues raised by the organizational circumstance again concerned controllability. Basically, managers faced the challenge of balancing their exposure to traditional budgetary controls and the imperative of achieving organizational-level financial targets, with the more broadly-based demands imposed by the need to pursue strategic initiatives. The 2005 study documents how managers were aided in this challenge by the embedding of budgetary control within a wider management control framework comprising various formal and informal procedures aimed at supporting 'negotiated' arrangements and 'shared' accountabilities. Nonetheless, a lack of individual-level controllability characterized the organization: individual responsibility centre managers acknowledged having partial and limited control over achievement of budgetary targets. Extant literature suggests that a lack of controllability will lead to dysfunctional consequences; for instance, increased job-related tension and stress (Dent, 1987; Merchant, 1987). This may have been so at the case study organization; the issue was not formally examined. That said, Frow et al. (2005) report how Astoria's managers at the least accepted – and in some cases, even seemed to relish – the challenge of fulfilling role requirements in the absence of controllability.

The suggestion that the organically configured multinational organization investigated by Frow et al. (2005; 2010) was continuing with traditional budgetary controls requires qualification. In the spirit of Ansari (1979), the company operated with a more 'open' approach to budget variance analysis. Individual responsibility centre managers were empowered to assess budget variances, not on a compartmentalized basis, but in terms of the potential effects on broader organizational strategy.The company also emphasized the importance of unit costs over budget allocations, while there was some attempt to align input with output. For example, initial budget allocations could be increased if the prognosis was that doing so would secure proportionally greater revenues in the medium- to longer-term. The budgetary processes operated by the company in question were observed to be embedded within a wider management control framework, and are conceptualized as an example of 'continuous budgeting' (Frow et al., 2010).

The above two studies suggest that traditional approaches to budgetary control may not be as problematic for organizations, and in particular highly organic ones, as is generally perceived. In a study of eight UK-based companies, Dugdale and Lyne (2006: 3) report, in contrast to the arguments of the BB Movement, that 'Most respondents were not critical of the budgeting process'. Such evidence raises a number of issues, one of which is the possibility that, in focusing so heavily on the perceived negative aspects of budgets and budgetary control, the academic literature could be accused of ignoring the more positive role(s) that budgets may play in organizations. After all, there may be reasons as to why organizations have persisted with traditional budgetary control procedures despite the 'very bad press' budgets have tended to receive over the years, especially in the academic literature. In this context, Hansen, Otley and Van der Stede (2003) note how research into budgetary control may have become misplaced, with scholars investigating issues of decreasing practical relevance to organizations.

A positive psychological role for budgets?

Adopting a more positive perspective, an emerging literature has begun to examine the positive psychological role that accounting and budgets may play in managers' work experience. Hartmann (2005), for example, shows how tolerance for ambiguity may moderate how managers view the appropriateness of accounting performance measures in conditions of uncertainty: the higher the tolerance for ambiguity, the greater the perceived appropriateness of accounting as a measure of performance. Marginson (2006) finds that increasing reliance on financial information may reduce role ambiguity. As mentioned, Marginson and Ogden (2005a, p. 437) show that managers may commit to achieving pre-set budgetary targets because 'doing so offers a sense of clarity and security' within a role subject to ambiguity and uncertainty. Marginson and Ogden (2005b) propose that budgets may enable managers to feel psychologically empowered. Finally, Hall (2008) examines the extent to which 'comprehensive performance measurement systems (PMS)' are related to both psychological empowerment (PE) and role clarity, with consequences for managerial performance. Hypotheses are based upon the assumption that a comprehensive PMS 'provides richer and more complete feedback about operations and results . . . which is expected to have positive effects' (p. 144). Defining comprehensive PMS in terms of information provision (to assist managers in managing firm operations) (Ittner, Larcker and Randall, 2003; Lillis, 2002), Hall (2008) reports support for his hypotheses. Hall's (2008) research is consistent with the argument that a broad range of measures, incorporating non-financial measures, overcomes the inadequacies of traditional narrowly based financial measures (see Ittner and Larcker, 1998; Ittner, Larcker and Meyer, 2003; Lau and Sholihin, 2005; Lau and Moser, 2008; Kaplan and Norton, 2001).

The literature examining a positive psychological role for budgets highlights an important point: that, despite the significant body of literature that has amassed on the subject of budgeting over the years, there may be yet much to learn, not only about how budgetary control may be exercised in practice, but also on the behavioural consequences of these practices. This point appears particularly pertinent regarding the role(s) played by budgets and budgetary control in settings which are traditionally seen as problematizing the effectiveness of traditional budgetary control practices and procedures. There are studies which challenge this orthodox view (see e.g. Chapman, 1998). There is even research which suggests that budgets may not necessarily stifle innovation and learning (Marginson and Ogden, 2004; Marginson and Bui, 2009; Frow et al., 2005; 2010), an oft-repeated criticism of traditional budgetary controls (Argyris, 1977; Bartlett and Ghoshal, 1993; Emmanuel, Otley and Merchant, 1990; Hedberg and Johnson, 1978; Hope and Fraser, 2003; Johnson and Gill, 1993). All this reinforces the point that, irrespective of the considerable research thus far undertaken into budgeting, there is still scope for further research. The following offers a few suggestions as to where such research may be directed.

Ideas for further study

A potentially useful way of considering the question of budgetary control in a modern context is to view the issue from what are perceived to be three core elements of the budget cycle: budget setting, budget implementation, and budget accountability (performance evaluation). Each is elaborated in turn.

For the purposes of this chapter, budget setting refers to the distribution of resources and the establishment of budgetary targets at the level of the individual responsibility centre (Horngren, Bhimani, Datar and Foster, 2002). Budget setting encompasses budget planning, to the extent that planning informs the distribution of resources. From a traditional perspective, budget setting is normally seen as a periodic process following, in the main, the solar cycle (i.e. occurring annually, although budget-setting may be conceived of as a more frequent process, through the use of rolling budgets for example). Traditional budget-setting procedures may be laborious and time-consuming (Neely et al., 2001). However, the setting of the annual budget, including the master budget, is viewed as a way of enabling top management's strategic plans to be 'cascaded' through the firm and translated into a series of financial targets at the level of the individual responsibility centre (McNally, 1980). In essence, budget setting is about establishing forthcoming budgetary requirements for each of the major decision points of the firm.

Budget setting is generally viewed as being enhanced through participation since participation enables the subordinate to reveal private information, thereby leading, it is presumed, to higher-quality budgets (Nouri and Parker, 1998; Shields and Shields, 1998). Participation is viewed as being particularly important in conditions of uncertainty, which reduces the relevance of historical data (Emmanuel, Otley and Merchant, 1990). Yet, as Marginson and Ogden's (2005) study shows, high levels of uncertainty need not necessarily be accompanied by high levels of budget participation. Rather, initial budget allocations may be imposed, simply because *all* managers are equally uncertain about future resource requirements in a fast-moving environment. Imposing budgets has generally been viewed as a way of de-motivating managers towards achieving budgetary targets (on the basis that participation is seen as a way of motivating managers towards achieving the budget – see Collins, 1982; Searfoss, 1976). Marginson and Ogden's (2005) study, however, again suggests this may not necessarily be the case. In place of an absence of participation, managerial commitment to the budget may be achieved on the basis of what an imposed budget offers: a sense of stability and structure in the face of considerable instability and uncertainty. The potential for certain budgetary issues/practices to act as substitutes for other issues and practices is a neglected topic that is worthy of further investigation.

Notwithstanding the above, and for the organization concerned, budgetary targets were imposed on the understanding that initial allocations could be revisited and revised as circumstances changed. The rationale involved appears similar to that reported by Ostergren and Stensaker (2010): target setting was simply a first step in a more flexible budgetary control process which involved potentially numerous budget adjustments and iterations as circumstances unfold. Budget setting as an imposed procedure merits further investigation, not least in terms of both why budgets may be imposed, and what issues might follow.

Budget implementation may be viewed as involving resource consumption in support of organizational activities; the money is spent (or at least committed to be spent). The control of resource consumption has traditionally been associated with the provision of variance information (Ansari, 1979). Reporting frequency may vary (e.g. weekly, monthly), but according to the cybernetic model of control on which traditional budgeting is based, corrective action should follow automatically from information received about budget variances (Ansari, 1979). This may, of course, be the case in all circumstances; regulatory action may be invoked which seeks to correct any deviations from budget. At the same time, of course, recent research (Frow et al., 2005; Marginson and Ogden, 2005) suggests managers may be encouraged to consider budget variances, not in isolation, but in the context of firms' strategic requirements, such as the possibilities of making improvements to ongoing projects as new information becomes available, notwithstanding the extent to which project modification often require additional resources. This may give rise to tensions and possible trade-offs involving budgets and broader strategic activities (Marginson, 2002), while questions also arise regarding the usefulness of responsibility-centred accounting control reports in these circumstances. Traditionally, accounting control reports provide information on performance against predetermined targets; they are not able (or used) to supply information on the financial implications of the strategic developments that occur during the period of budget implementation.

The above illustrates just a few of the issues that can arise with budgetary implementation in highly organic circumstances. Yet, of the various budgetary issues for investigation, the period of budget implementation currently remains one of the least researched. For instance, little is currently known about how tensions and possible trade-offs involving budgetary expenditure and other organizational activities are resolved during the implementation period, who may be involved, what influences are brought to bear, and indeed what role(s) accounting information may play in the decision processes that accompany or comprise budget implementation. The *process* of budget implementation has generally been treated as the proverbial 'black box', with the vast majority of academic research focused on investigating issues relating to the 'start' and 'finish' points of budgetary control: budget-setting and performance evaluation. The discoveries of recent research suggest this situation should not and cannot continue.

Finally, regarding the 'finish point' of budgetary control, it seems, on the basis of recent evidence, that more needs to be done to investigate the role of budgetary information in performance evaluation; or more precisely, how budgetary control may be achieved in the absence of accountability for budget performance. A key aspect of traditional budgetary control is to hold managers accountable for their budgetary performance (Hanson, Otley and Van der Stede, 2003). Budget-responsible managers may also be rewarded for meeting the budget (Horngren et al., 2002). This implies the use of budgetary information in performance evaluations (Otley, 1987). However, the idea of assessing individual managers' performance against pre-set standards by reference to accounting information is accepted as problematic in fast-moving, highly organic circumstances. Besides problems of controllability, the process presumes an ability to predict with accuracy managers' budgetary requirements at the budget-setting stage. By contrast, contemporary organizational settings demand that managers are able to take advantage of unfolding opportunities which promise longer-term payoffs, but which may require the sacrifice of short-term results (Laverty, 1996). *This* implies a reduced role for budgetary information as a performance indicator, to the extent that notions of formal accountability (and reward) for budgetary performance may be removed altogether for all but the most senior managers (Marginson and Ogden, 2005). In turn, this takes the issue beyond even 'performance evaluations based on relative performance contracts with hindsight' (Hanson, Otley and Van der Stede, 2003: 101), as there is no formal performance contract, flexible or otherwise (Hope and Fraser, 2003).

To the extent that the above is the case, it would be instructive to investigate how budgetary/cost control is exercised in circumstances where the familiar extrinsic motivators (accountability and reward) have been de-emphasized or removed altogether. Such actions seem almost heretical, as they strike at the very heart of traditional understandings of traditional budgetary control (Searfoss, 1976). Yet, not only have such radical steps seemingly been taken (Marginson, 1999; Marginson and Ogden, 2005), but the organizations concerned appear not to have suffered as a consequence. The removal of formal accountability and reward from the budgetary control process appeared motivated, in part, by organizational attempts to address controllability issues which arise from using traditional responsibility accounting frameworks within highly organic circumstances. These issues merit further attention, as does responsibility accounting (Rowe et al., 2008). Generally, the limited but no less revealing evidence further highlights the considerable scope for further research into the scope and practice of budgetary control.

Concluding comments

This chapter has attempted to weave a way through the recent literature on budgetary control, which covers a range of issues. There is continuing investigation of topics first researched some considerable time ago. The topics include: budget participation (Fisher et al., 2006), budgetary slack (Davila and Wouters, 2005), dysfunctional consequences of budgetary controls (Van der Stede, 2000), and the relationship between budgetary control systems and strategy (Abernethy and Brownell, 1999). There have been repeated calls for the demise of traditional budgeting (Hope and Fraser, 1997; 1999; 2003). There is research into management control without budgets (Østergren and Stensaker, 2010). There are now the established concepts of 'Beyond Budgeting' (Becker et al., 2010) and 'Better Budgeting' (Neely et al., 2001). There continue to be surveys of organizations' budgetary control practices and procedures (Libby and Lindsay, 2010), as well as the roles budgets may play in an organizational context (Hansen et al., 2003). There continues to be much conceptual criticism of traditional budgets, particularly in the practitioner literature (Hendersen, 1997). There is criticism of the focus of academic research on budgeting (Hansen et al., 2003). There are studies documenting developments in firms' budgetary practices (Neeley et al., 2001). There is research documenting budgeting's embedding within wider management control frameworks (Frow et al., 2005; 2010). There are a few studies highlighting seemingly radical approaches to budgetary control (Marginson and Ogden, 2005). There is limited evidence of developments in responsibility accounting arrangements (Rowe et al., 2008). Finally, there is an emerging literature which is beginning to document and understand the more positive psychological roles that accounting and budgets may play in managers' work experiences (Hall, 2008; Hartmann, 2005; 2007; Marginson, 2006; Marginson and Ogden, 2005).

This is quite a mix of issues, arguments, and investigations, with no obvious consistency of view/evidence. Perhaps, however, the one common theme we may take from the recent literature on budgeting is evidence of a growing diversity of budgetary control practice. Contingency theorists argue the need for control systems and processes to 'fit' the organizational context in which they operate. For some organizations at least, this organizational context is documented as having developed towards a more highly organic N-form-type arrangement. From a contingency perspective, therefore, it is not surprising to find changing budgetary control practices and procedures. At the same time, the apparent diversity of practice suggests that today's firms may be struggling to determine how best to exercise budgetary control in a globalized environment. The diversity of practice that is being documented appears to include some radical approach to budgetary control. It may still be, in many respects, budgetary control, but, to borrow from a famous phrase, not as we know it – or at least not as we used to know it. As a final comment, therefore, perhaps there is a growing need for textbook literature in management accounting to reflect the growing diversity of budgetary control practices. The idea that a standard approach exists may no longer apply, if it ever did.

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