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Bill Ryan, School of Management, Royal Holloway University of London, Egham, Surrey. TW20 0EX.

Bill Ryan

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Budgeting, the Individual and the Capital Markets: A Case of Fiscal Stress?

BILL RYAN *

School of Management, Royal Holloway, University of London

ABSTRACT *Budgetary control is a major aspect of management control and one that has undergone major shifts of emphasis in both the literature and practice in much of the later part of the 20th century. At the same time the movement from a manufacturing to a knowledge or service type environment has also been accompanied by an increasing acknowledgement of individual contribution to organisation performance. This has happened in a business context where the influence of the capital markets has impacted on the budget and other control practices of organisations. This paper draws on a detailed field study focusing on the individual and the problematic nature of budgetary control in a changing operational environment that acknowledges both the importance, internally, of the organisation members and externally, the growing influence of shareholders on business operations.*

From an operations viewpoint, control and accountability for results continues to move down the organisation to the level of the individual in a manner that could be said to lead to a "performative contradiction" running counter to the ideal of a individual participatory budgeting style.

KEYWORDS: Budget, Management control, Performance, Individual

Introduction

This paper draws upon much of the previous work on budgetary control particularly in the areas of participation, slack, performance measurement, time frames and bias, all of which are issues for many organisations including the case organisation and the individuals therein (Argyris, 1952; Likert, 1961; Hofstede, 1968; Lowe and Shaw, 1968; Schiff and Lewin, 1970; Hopwood, 1972; Otley, 1978,2001; Merchant, 1985; Llewellyn, 1998; Van der Stede, 2000). While the concept of budgetary control appears well understood, its implementation can be problematic for many organisations and this will be illustrated in the case study context of a particular organisation, referred to as Eurel. The focus of the analysis will be the individual organisation member who is seen as an increasingly important resource contributing to organisation performance.

If we acknowledge the growing influence of the individual organisation member Simons (1995) and Guthrie (2000), the issue is how the changing budgetary control and performance milieu affects that same individual. This changing environment has led to an interest in the implications for the individual in organisations. Scientific management described how the focus on the use of knowledge was in the extensive use of knowledge in the dissemination of tasks in order to control output, an output that was generally tangible by nature. The issue today is that knowledge itself can be that output (Simons, 1995; Guthrie, 2000). While this output still needs control, the

Correspondence Addresses:
Bill Ryan, School of Management, Royal Holloway, University of London, Egham, Surrey TW20 0EX.
Email: Bill.Ryan@rhul.ac.uk

control mechanisms including budgetary control, should recognise the increased emphasis on the individual contribution to that output. As Hopwood (1974) argues “Ultimately all forms of control must be expressed through the actions of individuals”. This is all the more important as the owner of that knowledge is also the individual, as Drucker (1999) argues “ we know that the source of wealth is something specifically human: knowledge”. The early work of Lowe and Shaw (1968) see budgetary control as part of behavioural theory where budgets act as an enabler allowing the resolution of managerial coalitions and conflicts. This behavioural theme is also an essential element of the research by Hopwood (1972) and Otley (1978, 2001). For example, Otley (2001), in discussing budgetary control takes as a starting point Argyris’s 1952 paper entitled The impact of budgets on people as exemplifying the essentially behavioural work done relative to control during that period which also included Schiff and Lewin (1970) and Hofstede (1968).

The paper starts with a review of the essence of budgetary control with a focus on the issues of participation, slack, measurement, time frames and bias. This section also signals and integrates aspects of a changing business environment and the connection to individuals in organisations. This is followed by a review of budgetary control aspects of the management control literature. There is also a brief description of the case organisation and in particular the two business units that form and provide the case detail. This is followed in the third section by brief description of the research methodology. The fourth section includes the empirical discussion of the case study data. The paper concludes with a final summary that synthesises the results and allows a discussion on the extension of existing theory.

The Essence Of Budgetary Control

Buckley and McKenna (1972) describe budgetary control as consisting of planning, controlling, co-ordinating and motivation through money values and departments within an organisation. It is a plan, in quantitative terms, usually for one year. Hofstede (1968, p15) describes budgetary control as planning translated into monetary terms. The essence of the process is the influencing of management behaviour by setting agreed performance standards and controlling the attainment of those standards. For Hofstede (1968), the planning or budget function appears steeped in a stable environment. Perhaps this is typical of the inside out view of the organisation’s place in its environment. However, in the current changing business context, the budget process is of necessity more connected to the uncertainty of that environment which will be argued to be in keeping with a shorter term perspective.

From an overall company control perspective, more recently Otley (2001) notes that the assumption of budgetary control is that it is the main integrative control method for most business enterprises. The assumption being that an organisation’s business plan can be represented financially by the budget and that the budget can be used as a monitoring and controlling method for the complex issues of the business plan. This emphasis sees the budget lonked to the overall attainment of organisation performance targets.

While there appears to be general agreement on the behavioural, planning and control objectives of budgetary control it’s implementation can be problematic (Lowe and Shaw, 1968; Hopwood, 1972; Llewellyn, 1998). To understand the reasons for this, we need to look not only inside the organisation but also at the outside environment and the unpredictability of that context.

The Environment Of Change And Influence

Otley (2001) noted that although budgetary control is part of a complex organisation reality, it appears to "work reasonably satisfactorily in a relatively stable environment" (p.257). It is therefore relevant to question whether the dynamic nature of the current business environment also influences the reactions of organisational members to a changing budget environment.

Recent years have seen much change in organisational life and the research literature has catalogued this (Forrester, 1965; Drucker, 1988, 1999; Handy, 1996; Giddens, 2000). The notion of the fixed stable organisation has seemingly, been replaced by one that is ever changing and flexible where the individual and his/her contribution ability is increasingly recognised. This theme is echoed by Simons (1995) and Guthrie (2000), who recognise the contribution of the individual to the continued competitive advantage of the organisation. Simons in his quest for appropriate measures for the intangible aspects of risk and uncertainty and Guthrie who argues for more meaningful measures for Intellectual Capital that is the product of individual contribution. The issue of risk is also taken up by Collier and Berry (2002) who take the notion of uncertainty and the outside environment and conceptualise it in terms of risk and attitudes towards that risk in budgeting. They argue that much of the previous work on risk in accounting was technically related to predictability with the use of decision tools such as probabilities and decision trees. Their study examines risk from the point of view of the managers charged with incorporating it into the budget process.

Despite the acknowledgement of the growing importance of individual contribution to organisations, a numbers of issues arise including a business context that is becoming problematic in relation to issues of budget participation as well as the increasing influence on organisation control by the outside investment community (Drucker, 1999; Haslam et al, 2000). While, this undoubtedly affects the perceived levels of budget responsibility, the process of establishing and its subsequent implementation and monitoring cannot be completed without the contribution of organisation members. This appears to be especially true in the accountability for results. In both the public and private sectors, accountability is being driven down the organisation to the level of the individual (Roberts, 1996; Townley, 1995, 1996; Llewellyn, 1998; Beck, 2000).

The current problem for budgetary control is how to control in an environment where there are also changing patterns both inside and outside the organisation. Outside the organisation we need a better understanding of the issues of change. What are the drivers of change and how are they effecting the organisation and the individuals within? Historically, the focus was internal to the organisation. With the 1970's, came an increased recognition of the importance of the environment and organisations recognising their place within that environment (Otley, 1980). Contingency theory recognised, not only the contingent variables such as technology, structure and size but also the effect of the outside environment and the uncertainty that that brings to it (Otley, Broadbent and Berry, 1995; Collier and Berry, 2002).

For the organisation, there is a growing need to interact with not only the product market but also increasingly, the capital markets (Haslam et al, 2000). The expectations of shareholders impact in a number of ways and one issue to be considered is that of corporate credibility. There is little doubt that the business environment has, for some time now, been characterised by levels of extreme competitiveness, where technologies and processes have become transferable and more easily copied (Teece, 2000 Ch.1)). This has also led to a situation of diminishing profit margins that is also the case for the research company Eurel(see below). The demand for credibility in the attainment of budgeted results has been led by the shareholders. They no longer have long-term loyalty to those organisations (Rappaport, 1986; Handy, 1995; Drucker, 1999; Haslam et al, 2000;). This changing pattern of shareholder loyalty along with the intensity of competition and lowering profit margins has led to growing pressure on organisations for the achievement of planned operating results. This is exemplified by the power of the Wall Street analyst community who exercise major influence over corporate strategy by their buy or sell recommendations to fund managers. Eurel along with other major corporations give quarterly briefings to the analyst community as to their expected results for the upcoming periods. Based on these briefings and the subsequent actual results, analysts may change their stock recommendations (Riley, 2000).

This section described aspects of the environment of change in relation to the acknowledgement of individual contribution as well as the growth in power of the investment community. These are essential ingredients in the growing integrativeness and mutuality of dependence that is the budgeting process. I now turn to the process itself and review the literature in that area.

Budget Bias

An early study by Lowe and Shaw (1968) studied budget bias (slack) in an environment that appears to have been relatively stable. They found considerable evidence of bias both at an organisational and in the reaction of individuals to head office manipulation of their input budget data.

Dunk and Perera (1997) studied the relationship between budget participation and slack (bias). They argued that budget slack was the difference between the budget and that, which is necessary. It can be defined according to Dunk and Perana as the amount that subordinates understate their productive capability when selecting standards against which their performance will be evaluated. So, it is reasonable to conclude that budget slack relates to aspects of under estimating revenues and /or over estimating costs and by inference can be influenced by either a group or an individual. Van der Stede (2000) also studies recent changes in the budget process and focuses on aspects of bias (slack) and short- term orientation. In doing so, he notes that the literature has been influenced greatly by the seminal work of Hopwood (1972) in attempting to understand the possible effects of differing budget control styles. Van der Stede notes that it is generally maintained that there is a relationship between dysfunctional behaviour such as bias and the incidence of rigidity of budgetary control.

The notion of slack/bias is an important one for the case company Eurel and its business units as they are increasingly dependent on knowledge influenced product output where the maximising of individual productive capability is very important in the on-going struggle to meet shareholder expectations. This contribution is argued in this research to be very dependent on the participation of the organisation members especially in the environment where sales and profit growth are becoming more difficult to attain.

Another related issue in this area is participation and its effect on the budgetary process. Dunk and Perera (1997) argue that there are generally two opposing concerns in the literature revolving around whether participation either reduces the incidence of slack or adds to the opportunities to create it.

These conflicting conclusions suggest that the relationship between slack and participation is not a simple one but may be dependent on many issues such as evaluative styles and the extent to which information can be manipulated to affect budget setting (e.g. Incentives, budget targets). Otley (1978) and more recently Merchant (1985) and Dunk (1993) also found that budget bias were low when there was a high emphasis on budgetary control. They argue that, contrary to a behavioural sciences expectation, that a rigid budgetary environment was more likely to detect and so avoid dysfunctional behaviour such as budget bias. The question is how can the element of individual contribution be controlled by a more rigid budget process? It may be a case of controlling visible commitment but with an inability with regard to individual potential commitment.

Budget Performance, Participation, Time Frame And Measurement

The study by Lowe and Shaw (1968) highlighted the issue of participation and measurement issues within the budget time frame. They found that there was influence from head office to the extent that realistic forecasts were considered to mean realism tempered by expediency. This led to unrealistically high forecasts. There was also evidence that forecasts were linked to what superiors wished to hear and personal self-interest in terms of remuneration and promotional possibilities. Lowe and Shaw conclude that there was evidence of both individual and company biasing but that it was difficult to assess the extent due to time lags of information between forecasts.

The time frame, whether short or long term, is an issue taken up by other researchers such as Merchant (1990) who describes in his study, the side effects of the pressure to meet short term results. He found evidence to show that this pressure encouraged a short-term orientation as well as an environment of data manipulation. Merchant and Manzoni (1989) also came to a similar conclusion. They argued that managers faced the prospect of losing resources, bonuses and ultimately, possibly, their jobs if they did not focus on attaining results in the short –term. Allen (1998) also describes the rapid changes in the business environment of today and argues that these changes make obsolete the rigid approach to budgetary control. It is no longer helpful, in his opinion, to compare actual results to that forecasted anything up to 15 months previously. He argues that amongst the requirements of a more appropriate system, would be the building in of accountability to explain the differences between actual and planned performance. This demands a more immediate time frame of information reporting. The short-term time frame can be related to the earlier discussion on the changing demands of the shareholding community that is argued to be steering a short-term perspective by the organisation. The issue for the case organisation Eurel is that the emphasis on the short term may be self-defeating in that the pressure to meet short-term results will divert attention away from an organisation history of a longer-term perspective.

Kaplan and Norton (1996, 2000) discuss the Balanced Scorecard approach and in doing so, link it to the budget process and the notion of a connection between short- term operational and longer- term strategy requirements. They argue that the Balanced Scorecard breaks overall company strategy down to operational levels and encourages measurement of operational areas.

These measures would include not only financial results but also attempt to make tangible the measurement of for example, organisational learning. In making operational, the longer-term strategic focus of the organisation, they argue that business units can relate their operational drivers of change to longer- term corporate strategy. Kaplan and Norton also argue that employee buy-in and acceptance of these measures brings a longer-term focus to this shorter-term budgetary process.

However, the issue of performance and its measurement can be problematic. The issue is that performance can include facets of work that are not easily measured. There are aspects of work performance that are not easily categorised and /or measured and the danger is that the emphasis on the short term ignores the output possibilities of the futureisation of aspects of present work performance. If the emphasis continues to focus on a unidirectional short time frame aspect of output measurement this could lead to a situation where future output of time related organisational member contributions may become problematic.

This study follows other empirical work, which suggests that there is a positive relationship between the process and setting of targets and managers commitment to them (Jermier and Barkes, 1979; Rhodes and Steers, 1981;Brownell, 1982). These studies are primarily focused on the relationship between participative styles and organisational commitment. Nouri and Parker (1998) also take up the theme of participation and commitment. They continue the quest for understanding in the relationship between participation and job performance. While a number of researchers have proposed that this relationship exists (Argyris, 1952; Becker and Green, 1962, from Nouri and Parker, 1998), they also argue that there are additional variables that need to be acknowledged in the relationship such as organisational commitment and the adequacy of budget expectations. The issue of adequacy of expectations and commitment is not only related to participation but is subject to increasing levels of accountability both on the organisation as well as at the level of the individual.

Research Approach

The approach for this case study research uses Laughlin's Middle Range Thinking (M.R.T.), (1995, 2001) as the underlying framework. This approach requires attention to theory and the empirical world as well as an interaction between them in the development and extension of existing theory. The key aspect and advantage of using Laughlin's approach for research is that its framework provides a formality and structure that helps guide the investigation into the empirical world. Understanding is gained by a mix of structured and subjective processes where the receptiveness to change is based on the power of the argument. Laughlin argues for the importance of a situated, face to face approach to research, one that uses interviews, documentation etc., a method conducive to that of a case study approach that leads to what Laughlin (1995, 2001) describes as "a partial understanding of what constitutes the world". This is a world including accounting and budgetary control systems where "there are "skeletal" rather than "full" or "no" theories that can explain accounting in practice or generally any empirical phenomena" (Laughlin, 2001, p13.). What this means is that it is possible to say something about the empirical world being investigated or the way change is absorbed into its organisational setting and in doing so, add to our knowledge of the area. This is particularly relevant to this research, as the researched company Eurel has undergone change to its business environments.

Laughlin's Middle Range Thinking has its roots in critical theory and in particular the work of Habermas (1987). Although Habermasian theory is essentially aimed at a macro societal level, it has been adapted for specific issue evaluation at both societal and organisational levels. For example, Law (Murphy, 1990), Management (Alvesson and Willmott, 1992), Accounting (Laughlin, 1987, Broadbent et al, 1991, Power and Laughlin, 1996). This study aims to add to that body of work by focusing within the organisation and at the level of the individual.

The Case Study

The Eurel Company has worldwide sales of approximately $16 billion and there are about 72000 employees in total. The period under study is from 1992 through to 1998. Eurel is a global leader in Industrial, Consumer, Office, Health care, Safety and other markets. It draws on much strength including a rich pool of technology and innovative products as well as a history of emphasising the value, encouragement and contribution of its organisation members.

Accountability For Results

The earlier discussion on shareholder loyalty and the demand for results have changed the traditional relationship between the organisation and the outside investor community. Historically, Eurel were able to control, to a great extent, its relationship with the shareholders. For example, they used their dividend policy to ensure that shareholders received increasing dividends every year for more than 25 years. However, the issue for companies like Eurel is not necessarily dividends, which are arguably simply a cash flow decision but rather the issue is credibility of results and future earnings potential. Miller (1982) argues that there is no long-term relationship between a firm's dividend policy and the value of its shares. The value of its shares is ultimately ruled by its earnings ability. The issue for the case company is not necessarily its dividend policy, important as that is, but rather how it can continue to encourage the spirit of individual innovation and contribution that historically rewarded it with a constant flow of new products. This is what the investment community will demand for the future. The future aspect of both short and long-term is related to the budget process and the financial markets. The company uses its budgetary control system and links it to the quarterly financial analyst meetings. At these meetings quarterly expectations are signalled to the financial markets analyst community. This has become a standard requirement particularly, of U.S. corporations including Eurel who know that the penalty for failure to deliver is a possible downgrade in the analysts' buy/sell recommendations to the shareholding community. This constant pressure on the share price has changed the company's use of the budgetary control system. At a macro level, the company is held accountable for delivering quarterly financial results and at a micro level; this accountability is being driven down the organisation with a changing emphasis of the intensity in use of budgeting as a control mechanism.

Llewellyn (1998) describes this relatively recent phenomenon and in doing so provides some useful ground rules on the elements of accountability. Llewellyn argues that the process of budgetary control acts as a responsibility allocating agent and in doing so can enable an environment of accountability but that accountabilities cannot be invoked unless responsibilities have been assigned. Therefore responsibility ascription defines who is accountable. Responsibility is an "a priori " to accountability. Llewellyn goes on to discuss the connection between responsibility and authority. This concept comes from the old idea of "Auctor" or one who produces, invents or causes (Benn & Peters, 1959, from Llewellyn, 1998). Llewellyn argues that where authority resides in an individual then that person is the originator of action and can be held responsible for consequences. In this way he/she can be held to account.

About 50 percent of Eurel sales come from Europe, where, with its disparate countries and structure has increasingly been a high overhead cost area compared to its U.S. parent country with the advantage of one land mass. Europe continues to under perform its US counterparts due primarily to high structural costs and poor credibility on the attainment of budgeted sales and profits growth.

Total company sales have been flat and net income has also been difficult to grow. Analysts and investors have been losing patience with the company as it continues to miss many of its projections on earnings as evidenced by the falling/stagnant share price during the research time frame. The issue for company in Europe is that, although local currency growth is outperforming the economies of Europe (8 % growth for 1998), this has failed to produce the levels expected in bottom line profit. This has been more or less flat with little increase since 1997. This is in spite of much delayering in the European structure over the last 4 years. For example, the Electronics European Business division, the situation is even more pronounced. Sales have been flat at about 60 million dollars and profit is declining. In this business, the last 4 years has seen many "right sizing" initiatives without any increase in the profit contribution to the corporate division owners of the business.

As the company in the US struggles to re-establish itself in the eyes of the shareholding community, there is an increasing impatience with the European operations where significant investment and change has not delivered the results predicted through the budgeting process. This lack of consistency in projections continues to be a major problem particularly in the relationship between the corporation and the shareholding community.

The empirical data is drawn from 2 divisions of the company with contrasting histories and current issues. They offer contrasting environments in which to study the effects of changing control systems. Contingency theory might suggest that there would be differing results in this contrasting context. Both of the groups have undergone major change initiatives such as downsizing or have been involved in acquisitions. They operate in different markets. One is a star performer for the corporation, operating in the healthcare, personal safety market where profits are high and the market relatively stable and where the increasing regulated nature of the market has provided the impetus for steady volume and product growth through that regulation.

The other division is in a market where the expectation is for pricing to continuously fall and where their product range is becoming increasingly commodified. From a strategic sense, they are attempting to move from a reliance on their traditional product range, which is easily copied by competitors, to one that is more customer- specific and which is based more on core technologies. This is a major change for the group and one that will be based more closely on the knowledge ability of the group individual members. In this way, they hope to have a more sustainable future product range and increased profitability. Both of the business groups operate on a Europe wide basis as European business units.
The groups offer an opportunity to study the effects of the changing control systems in differing operating environments.

Control And The Budgeting System

Historically the company had a budget system that was based on a relatively stable environment. The forecasting process spanned a period each year of about 8 months and tended to include a significant top down influence. The main difficulty was with it taking so long to complete that the information was increasingly out of date by its completion. The demand was for a more immediate system, one that was integrated more fully in to the main company systems. This led to the introduction of the continuous improvement plan (C.I.P.). This system is more iterative and emphasises the continuous nature of the process. It is, in essence a continuous rolling forecast. The system focuses on quarterly estimates that importantly tie in with the demands of the investment community for quarterly updates on results and expectations. These quarterly updates have become a barometer of share value in the current financialised environment. In the search for corporate credibility the C.I.P. has taken a very immediate role as a mechanism for change and control. It seeks to be the system that facilitates the return to consistency as far as corporate performance and results are concerned. However, the manner in which this happens appears to be alienating organisation members. The research data (see below) shows that management has become more concerned with the short-term attainment of quarterly estimates, than with the longer-term strategic issues of the company. While this may be a pragmatic issue for management, there is no doubt that the organisation members are reacting to that short- term emphasis.

The budgeting system is also designed to be more flexible, building as it does primarily, from the bottom up although this is an area that is increasingly problematic as will become clear in the interview data discussion. The other advantage is that it emphasises summary information and is meant to avoid the detailed financial soul searching that the previous system spent so much time on and consequently can, theoretically, be completed in a matter of weeks rather than months as in the old system. In reality, the aspirations of the C.I.P., as it operationally interacts with the organisation members has been strained.

This is an important aspect and goes to the core of the empirical data from the organisation members who feel that the case business units are in danger of losing that future perspective and adding to the intensity of the current control environment. However, in the immediacy of the current business environment and the quest for credibility in current results, the C.I.P. is the budget tool of the moment as far as the company is concerned.

The Interview Data

Introduction

The empirical data for this study on budgetary control came from 38 interviews conducted over a period of about 6 months. The interviews were semi structured and had as their objective issues on the changing management control environment as it impacted on the organisation members. Budget and budgetary control was a major issue for the business unit members and hence became the motivation for this research.

The emphasis on results: Changing influences, outside and inside the organisation

In the search for corporate credibility the C.I.P. has taken an immediate role as a mechanism for change that has been increasingly felt throughout the organisation. It is therefore a powerful tool of internal control in coping with shorter time frames and a multitude of estimates. Company members noted:

> *"The search for corporate credibility led to many requests for estimates. This ties in with the C.I.P. quarterly focus."*(Sales Europe- Electronics EBU)

> *"At a macro level, the company has objectives to meet for its shareholders. It is reasonably fair. The issue is that we have been conditioned to not meeting targets and to using the forecast to justify structure"* (Sales Domestic OH & E S EBU)

Within the organisation and its business units there appears to be an increased emphasis on the financial numbers. This may be related to the immediacy of the environment and the demand for an improvement in the credibility of results. This focus on immediacy and financial credibility is affecting the organisation members and is a recurring theme throughout the interviews and analysis.

> *"Quarterly targets are important. It all hinges around the share price. We must hit our quarterly numbers."* (Finance –O H & E S)

While pragmatically, the corporation needs to stabilise its credibility of results attainment, in doing so, there appears to be a change in the organisation environment. Where once it was "forgiving" as exemplified, perhaps in the stretching longer term nature of the old budget regime, it is now more punitive, immediately critical and according to the business unit members, increasingly individualised. This punitive atmosphere could be argued to have moved down from the corporate level as a reaction to shareholder pressure and has impacted the control systems such as the C.I.P.

> *" The new C.E.O. is on record as saying he doesn't believe that we don't have any poor performers and wants to know what we are doing about it"* (Bus. Dev. O H & E S EBU)

The perceptions and visibility of who is in control, is an issue within the business groups. This illustrates a different approach to control, as was illustrated in many of the interviews.

> *"I think that there has been a shift in the emphasis as to who runs the company. We had eras of marketing and manufacturing. Now, it seems to me, that we are rapidly being run by Accountants and Shareholders"* (Marketing- Electronics).

> *"The Shareholders are more important than the employees"* (Logistics OH & E S).

These references to the changing influence of the shareholders signal a change in the perceptions of the organisation members, as to who is in control of the company. Historically, as briefly noted above, the culture of the company was reflected by the old forecast system that had a built in review at corporate level for new ideas, projects or investments and was longer term by nature and was visibly encouraging/ forgiving of individual effort. Employees do not see this emphasis of the longer- term environment in the current control environment.

> *"The new CEO is saying the right things about the future but the future talk is then backed up by an emphasis on current profits"* (Market dev. OH & E S)

So far, the discussion has noted the influence of the outside environmental influence. Inside the organisation, operationally, the system appears well regarded for its technical and enabling abilities. It is difficult to argue with its operational method and objectives. Interviewees acknowledge its power as an enabler of accountability that seems appropriate to the short term and longer- term environment. It is also a mechanism of control integrating all operational aspects from communications through manufacturing and sales.Many of the interviewees spoke about its positive role in for example communications.

> *" I see the C.I.P. as providing a relationship between our jobs and the shareholders. This is what we plan (C.I.P.) and this is what is then communicated to the shareholders as what we plan."*(Bus. Dev. O H & E S)

In this way the C.I.P. is shifting the boundary of accountability from the company through the business groups to the individual. The link to the shareholders and the quest for consistent and credible results are common objectives that the C.I.P. is attempting to enable.

> *"When the new CEO came in, he talked down the C.I.P. and asked management to reduce their commitment by about 4%. This was unusual for the company and for a CEO to do. I guess he was trying to establish credible actual results especially with the stock market"* (Euro mgmnt. Electronics EBU)

However somewhere between the conception, objectives and implementation of the C.I.P, attitudes changed and its negative effects on both individuals and their associated business groups appears almost universal.

> *" The C.I.P. is a nightmare. It has inherent opposing forces. It wants certainty but also shooting for the stars"* (Euro mgmnt. O H & E S EBU)

> *"I don't want to add to the already unanimous condemnation of it other than to say it was an attempt to acknowledge that the previous system took too long"* (Euro mgmnt. Electronics **EBU)**

The C.I.P. process includes a new personalised vocabulary that includes words such as Credibility and Personal Credibility

> *"The forecasting language included terms such as personal credibility as well as group/business credibility"* (Euro mgmnt. O H & E S EBU).

The focus is on meeting targets for the short- term. The emphasis is on the shareholders and their requirements for credible results. This is also tied to the ability of the C.I.P. to estimate quarterly results.

> *" There is an almost psychotic search for credibility. Unfortunately it leads to conservatism in forecasting. There are no best guesses because you will get beaten up if you don't meet it"* (Sales Electronics EBU).

The notion of credibility is linked to trust and trusting. There seems little doubt that credibility and trust is an issue for both corporate and the individual within Eurel. While the C.I.P. is primarily concerned with the future, changes in control are also being felt on a day-to-day operational basis. This includes the issue of trust between the individual unit members and the organisation.

> *" The historical culture was that the forecast was built up from the bottom up- now the emphasis is on credibility, you would think that this was still logical but the forecast seems to be changed a lot, sometimes illogically. As far as I'm concerned, it's credibility is zero. It is supposed to be democratic but is not, in practice.* (Marketing Electronics EBU)

> *" We are just finalising the C.I.P. process at the moment. My forecast was accepted more or less in this region but because Europe as a whole needs more sales, I'm being asked to add substantially to my forecast for next year"* (Mgmnt. Electronics Domestic)

Having discussed aspects of individual reaction to the changing budget control emphasis, I now turn to the integration of the findings and the theoretical framework.

Summary Discussion

The emphasis on the changing culture of control through the budget process appears to be linked to the newer harder company attitude towards results and the changing nature and influence of the shareholder community.

Conceptually the C.I.P. is a bottom up system that for a specific time frame attempts to connect the aspirations of the shareholders, the organisation and its members. In terms of the Broadbent et al model it is a steering mechanism (control mechanism) used by the company to guide the behaviour of its operating systems such as the business units and its members. As an ideal organisation budget control system, the unit members have rationally accepted the C.I.P. as a legitimate steering mechanism. It's purpose, mode and means appear to be in keeping with both the expectations of the corporation, the outside societal world of the shareholders and internally, the sub systems of the business units. However as seen through the data and the individuals members, its implementation is proving to be problematic.

In contrast to the previous less flexible forecast system, the C.I.P. conceptually is viewed as much more relevant and acceptable in its aims. The process as previously noted builds from the bottom up which can be from the individual level and attempts to shift the boundary of accountability from the company down through the organisation through the business groups to the individual. However, despite the theoretical acceptance of the aims of the C.I.P., its implementation is, seen as inherently flawed.

In the case of the C.I.P., the rationally agreed targets should act as a guide to member's behaviour/action. Organisation members acknowledge the pragmatic need for attainment of budget results but have difficulty in accepting accountability for budgets that are manipulated and where the control environment appears to intensively intrude on those members ability to contribute.

As noted earlier, somewhere between its conception and objectives, the implementation of the C.I.P. has become tainted. Organisation members feel that the process itself lacks the credibility that it seeks to attain.

The forecast commitment from the bottom up has been continuously adjusted without the agreement of the members.

I would argue that the interference, which is now frequently used in the C.I.P. process, takes away from the individual, member's willingness to contribute. This can lead to a situation where "What you measure is what you get" referring to the situation where the intensive imposition of a concentration on measurement will illicit behaviour which satisfies that measurement. If the C.I.P. system continues to influence unduly the willingness to contribute, then it may not be surprising if the organisation members start playing the game and only forecast and contribute what they know will be acceptably achievable rather than what might be achievable.

The notion of credibility is linked to that of trust and trusting. While there is recognition of the pragmatic need for budget credibility, there is a definite feeling amongst the organisation members that the C.I.P. is being manipulated in the search for that same credibility. In circumstances of uncertainty and choice, the notion of trust and risk has particular application. I would suggest that trust in the case business units is being tested by the disembedding actions of the budget system used as a steering mechanism. Historically trust was part of the organisation culture providing a protective shield that helped the organisation members in their everyday work action. It helped provide an atmosphere of trust and security, which helped the members take that leap of faith, which some specific business actions require. In this sense budgeting based on future possibilities may be too much of a risk in the current distrustful atmosphere of the C.I.P. system.

The empirical data shows that the environmental pressure for results and its effect on corporate credibility has resulted in pressure being exerted on the corporation and has changed the order of things resulting in a reversal of the dependency links. Rather than there being the natural or previously accepted mediation over time, the current environment seems to be changing to the extent that the regulatory and mutually mediated space has been replaced by the imposition of the controlled use of steering mechanisms such as the budgetary control system. In this sense the steering media has been seen to constitute or force a mode of behaviour on individual members that appears to be historically unnatural. This has resulted in a negative effect on both the organisation members as well as the corporation. For the individual there is a developing sense of short-term outlook that is starting to show itself in a restrained contribution to the organisation. The imposition through the steering mechanisms of the more penal contribution environment appears to be militating against that same contribution. The short-term outlook is encouraging a short –term contribution that in turn may have a long-term effect on the stability of the organisation.

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