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Beyond Budgeting - a high-hanging fruit

The impact of managers' mindset on the advantages of Beyond Budgeting

Thomas Heupel^{a*}, Sven Schmitz^b

^aFOM University of Applied Sciences, Essen (Germany), Leimkugelstraße 6, D-45141 Essen, Germany

^bCatholic University San Antonio (UCAM), Murcia (Spain), FOM University of Applied Sciences, Essen (Germany), Leimkugelstraße 6, D-45141 Essen, Germany

Abstract

Beyond Budgeting is an alternative management control systems which evolved in the late 1990s. Even though the Beyond Budgeting system offers advantages to those organizations competing in the sector of knowledge industry, there are only few organizations practicing this approach today. This paper tries to give an answer to the question why Beyond Budgeting did not spread in the knowledge based modern industries and what might be impact factors regarding a successful approach. First this paper gives an overview of the development and the literature regarding beyond budgeting. After that the advantages of Beyond Budgeting are pointed out, especially in terms of organizational justice. We then show that the ability of managers and employees to participate in decision making and to accept a coaching management style might be a key factor for a successful approach. Moreover, this requirement might hinder organizations to start a Beyond Budgeting project as it would mean a change in mindset which is difficult to achieve. We suggest that Beyond Budgeting offers great benefits and advantages especially in terms of perceived organizational justice. But only those organizations which managers and employees are able to change and leave their comfort and turn into stretch zones, can harvest those advantages the Beyond Budgeting approach offers.

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* Thomas Heupel. Tel.: +49 201 81004-582
E-mail address: thomas.heupel@fom.de

1. The problem with budgetary control

For more than 15 years, the disadvantages which allow an allocation of resources by drawing up a plan are being intensively discussed in practice and science. This criticism mostly refers to the rigidity, great effort and the missing strategic orientation with regard to the distribution of the resources within a company: “The budget is the bane of corporate America” -Jack Welch, ex-CEO, General Electric- (Loeb, 1995).

Setting up a budget, in the sense of making a forecast how much to spend and trying not to overrun this goal, is a useful tool in societies and its organizations. And it has already been used by the first human civilizations to allocate rare resources like wheat (Solomons, 1952).

In extensions of the use of budgets, organizations started to use this simple and useful mechanism (budgets) not only as a planning tool but mainly to control and evaluate their employees (Johnson, 1978; Johnson and Kaplan, 1987; Quail, 1997). Budgeting in the sense of budgetary control, including control and evaluation systems based on forecast and fixed goals, became a powerful tool in organizations. Today budgetary control is the core of nearly every management control system used in organizations and most organizations are satisfied with their system (Libby and Lindsay, 2010). Even though budgetary control causes some dysfunctional effects in organizations, which might cause much more problems than it suggests to solve (Hope and Fraser, 2003a), very few organizations strive to change their system (Libby and Lindsay, 2010). Since the pioneering work of Argyris in the early 1950's scientist know about those dysfunctional effects caused by budgetary control (Argyris, 1953). One of the main problems Argyris found was that the hierarchical system of top-down budgeting, caused serious problems in human relations at work, especially when budgets were used as a top-down externally controlled pressure device. This pressure caused a lot of problems like budgetary slack, data manipulation or the refuse of cooperation between departments which compete against each other for rare resources (Argyris, 1953). So it is not surprising that scientist like McGregor called for a new way of controlling and evaluating employees and managers (McGregor, 1960). Even though a lot of scientist called for the usefulness of giving employees a voice in the process of budgeting (budgetary participation) (Hofstede, 1967; Milani, 1975; Merchant, 1985; Langevin and Mendoza, 2013) there did not seem to be much progress during the last 40 years (Libby and Lindsay, 2010; Umapathy, 1987). The refuse of changing the management control system for achieving a smarter and more efficient kind of control might cause much more problems in today's knowledge economy, as hierarchical control seems to stifle innovation which is the most important resource of knowledge economy (Marginson and Ogden, 2005a, 2005b; Bisbe and Otley, 2004).

2. The evolution of management control system

Already in 1998, the “Beyond Budgeting round table“, a cooperation between economy and science was founded to establish a new kind of resource distribution. The research directors and originators of the Beyond Budgeting concept, Jeremy Hope and Robin Fraser, published an extensive paper in 2003 in which they demonstrated a concept for the allocation of resources without strict plans (see table 1). The Beyond Budgeting is mostly composed of six principles and six methods which allow an allocation of resources in a highly dynamic economic context. Instead of planning, the focus is set on coordination with the help of internal markets (Hope and Fraser, 2003a, 2003b, 1997).

Table 1: Overview on Beyond Budgeting main thoughts in theoretical discussion

Author (chronologically)	Main thought
Argyris, 1953	Budgeting is a powerful tool but it causes some dysfunctional effects in organizations. No solution for that dilemma.
Fraser / Hope, 2003a	Allocation of resources works a lot better without planning. The radical prevention of budgets goes along with 6 leadership principals and 6 performance management principles that arrange for an optimal allocation of resources in a business.
Weber / Linder, 2008	There is generally always a trade-off between dynamic and complexity in all budgeting approaches. Beyond Budgeting allows the allocation of resources in a

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