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"Continuous" budgeting: Reconciling budget flexibility with budgetary control

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A B S T R A C T

This paper explores the role of budgeting in the context of the more flexible modes of management required in conditions of uncertainty. It contributes to the growing literature on the tensions between the need to meet specified financial targets, as expressed in budgets, and the need for more flexible and innovative forms of managing prompted by heightened market volatility and rapid rates of technological change. Drawing on case study evidence, the paper introduces the notion of "continuous budgeting" to highlight the ways in which one organization sought to reconcile these potentially conflicting objectives. By integrating different uses of budgeting with other management controls, the processes of "continuous budgeting" encouraged managers to use their discretion in operational matters when confronted by unexpected events. Consequently, it enabled managers to prioritise, as necessary, the revision of plans and reallocation of resources in order to meet wider strategic organizational objectives. As well as empowering managers, "continuous budgeting" also imposed strict accountabilities to ensure that managers remained committed to achieving their own and the organization's financial targets. Thus far from being an obstacle, budgeting contributed effectively to both the flexibility and the financial discipline required for effective strategy implementation.

Introduction

Within the accounting literature theoretical conceptualisations of the role of budgetary controls have traditionally been embedded within a very particular understanding of organizational forms and structures. The quintessentially bureaucratic multi-divisional 'M-form' structure pioneered in the early part of the 20th century by organizations such as Du Pont and General Motors (Chandler, 1962, 1977; Otley & Berry, 1980) was seen to provide the stability, certainty and clearly demarcated independence of managerial responsibility deemed essential for the execution of budgetary control. In recent years, however, an increasing number of firms have adopted more complex and more flexible organizational forms in response to rapid rates of technological advancement, hypercompetition,[1] and increased market volatility (Daft & Lewin, 1993; Illinitch, D'Aveni, & Lewin, 1996). Faced with greater market uncertainties and ever shorter product lifecycles, firms have sought to attain competitive advantage through a greater emphasis on innovation and learning, and flexibility and adaptation (Bartlett & Ghoshal, 1993; Otley, 1994). These developments have seen some organizations shift away from the use of traditional, mechanistic 'command-and-control' arrangements towards a greater application of contemporary 'facilitate-and-empower' philosophies. The latter involve more 'organic' organizational formats which rely on front-line empowerment,

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[1] The term hypercompetition, as defined by D'Aveni (1994), refers to an intense and rapid competitive environment within which organizations must act rapidly to build and sustain advantage over competitors.

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interdependence of units, flatter hierarchies, horizontal communication, collaborative internal networks and multi-functional project teams (Bartlett & Ghoshal, 1993; Chenhall, 2008; Euske, Lebas, & McNair, 1993; Ezzamel, Lilleys, & Willmot, 1994; Ruigrok & Achtenhagen, 1999).

Although the extent of these changes may vary,[2] the operation of new organizational practices has been seen as somewhat incompatible with 'traditional' budgeting's hierarchical command-and-control orientation (Bunce, Fraser, & Woodcock, 1995; Chapman, 1997; Hansen, Otley, & Van der Stede, 2003; Hope & Fraser, 1997, 2000, 2003; Merchant, 1987; Neely, Sutcliffe, & Heyns, 2001; Otley, 1994, 1999; Scott & Tiessen, 1999). Annually determined budgetary targets, and the delineated responsibilities associated with them, are seen to limit the scope of empowered managers to operate flexibly, militate against team-working within and between departments, inhibit innovative responses to unforeseen contingencies, and stifle the creativity required for innovation and learning to occur. These criticisms of budgets have led to debates as to whether budgeting has any future in management control systems (see Hansen et al., 2003; Otley, 2006). Hope and Fraser (2003), for example, have argued that budgets are increasingly inappropriate for organizations desiring to achieve high performance in competitive conditions, and should be abandoned. Nevertheless, notwithstanding their limitations, budgeting practices are still regarded as an organizational imperative if costs are to be controlled and predicted financial performance achieved. Otley has argued that the budgeting process "still represents the central co-ordinating mechanism (often the only co-ordinating mechanism) that most organizations have" and cautions that budgets should not be "discarded lightly" (Otley, 1999, p. 371). This is just as likely to apply to organizations facing market conditions which require a capability for a high rate of strategic adaptation and flexibility as they too will encounter competitive pressures to ensure 'tight' cost control.

This paper explores the tensions between the use of budgets and the development of more flexible modes of management. We draw on a case study of one organization, which we have called Astoria, to illuminate the ways in which managers combine budgeting with other management controls to meet the potentially competing objectives of flexibility and adaptation required for strategy implementation on the one hand, and the achievement of specified financial targets on the other. Our purpose is to analyse how Astoria understood, and gave effect to, the notion that managing strategic uncertainties is an organizational process that is susceptible to intervention and control on a sustained basis. In the course of this, we have examined both the formal provisions for management control as well as managers' practices, and focused particularly on processes we have called "continuous budgeting". "Continuous budgeting" seeks to avoid the inherently restrictive nature of budgetary control by enabling managers, when confronted by unexpected events, such as problems with the preparation and launch of new products, to consider, and if necessary implement, a revision of plans and reallocation of resources in pursuit of strategic organizational objectives. At the same time "continuous budgeting" firmly directs managers' accountabilities over their use of discretion in operational matters towards the achievement of the organization's financial targets. Given the tensions likely to arise from pursuing such diverse objectives, a key aspect of our study involves considering how managers themselves 'cope' with the demands of reconciling the individualistic nature of 'traditional' budgetary control requirements with organizational imperatives for a more 'global' focus in the management of strategic adaptation.

The remainder of the paper is structured as follows: the next section presents the framework for analysing the case study evidence, and specifies the particular research questions that we seek to address; the third section introduces the case study; and the following three sections provide an analysis of the case study data. The final section discusses some of the themes raised by the case study and presents some conclusions.

Analytical framework and research questions

Attempts to understand how strategic uncertainties may be managed on a sustained basis which allow for both control and flexibility to be achieved simultaneously have prompted researchers to question the divide between 'mechanistic' control systems which emphasise efficiency and 'organic' control systems which prioritise flexibility (Brown & Esienstadt, 1997; Chapman, 1998; Dent, 1987; Marginson, 2002). Previously seen as mutually incompatible, recent research has explored situations where managers have sought to benefit from combinations of both types of controls (Abernethy & Brownell, 1999; Chenhall, 2003, 2005; Ittner, Larcker, & Randall, 2003; Kalagnanan & Lindsay, 1999). In this context Ahrens and Chapman (2002, 2004, 2006), have re-examined how budgetary information may actually be used by managers. Using the framework of Adler and Borys (1996), Ahrens and Chapman have explored how an "enabling" use of budgetary information may be deployed by managers in conjunction with their local knowledge and experience to analyse and discuss how work processes may be modified in order to reconcile central standards with local contingencies. However, Ahrens and Chapman (2004, 2006) observe that such managerial practices, although based on shared understandings of what may constitute appropriate action, are not formally sanctioned but rather operate outside normal budgetary processes where managers are still subject to "potentially harsh hierarchical control" (2006, p. 10). Consequently, the scope for such 'informal' interventions occupies a delicately balanced space between the continuing operation of formal, hierarchically enforced accounting controls with all their attendant power asymmetries and the willingness of subordinate managers, as Ahrens and Chapman (2006) describe it, to engage purposefully with organizational objectives in order to make declared organizational strategy workable.

[2] Despite extensive evidence within the field of organisational studies of the emergence of these new organisational characteristics it is important not to exaggerate their significance in terms of their theoretical import (Foss, 2002; Gooderham & Ulset, 2002; Perrow, 1970).