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THE EMERGING PRACTICES
OF MODERN BUDGETING
AND THE ROLE OF
CONTROLLER

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Abstract

The presumed dominance of the traditional annual budgeting process as a cornerstone of management control has been called into question in recent years. Various new developments in budgeting have been seen replacing or complementing organisations' conventional budgeting. The dissertation provides a comprehensive picture of these new budgetary practices and their implications for management accounting work, through investigation of the fragmentation among various purposes of budgeting and of the ways in which the role of controller and new budgetary practices can complement each other.

The dissertation is composed of four inter-related essays, which provide qualitative evidence of how firmly established practices such as budgeting change and what implications the change has for the conflicting purposes of budgeting. It also provides insight into the ways controllers are able to build holistic view of the totality of budgetary control and compile new accounting information.

The empirical findings presented in the dissertation give rise to novel concept of *fragmentation*, which can be defined as an arrangement wherein a new mix of diverse controls is used to serve several purposes of budgeting and a single budgeting process is either replaced with or complemented by other control mechanisms. Fragmentation can serve as a common denominator for recent developments in budgeting but also aid in understanding the variation in new budgetary practices. Fragmentation of budgeting makes the boundaries of a budgetary system blurred but also enables designing flexibility into the control system itself. For the role of controller, fragmented budgetary practices mean co-ordinating the linkages between various budget-related methods, wider communication and interaction with organisational actors, new business-oriented skills related to key purposes of budgeting, and a growing professional role in increasing the 'realism' of accounting information in the lateral budgetary planning process.

Keywords: Beyond Budgeting, budgeting, controller role, functions of budgeting, planning, rolling forecasting, target-setting

Henttu-Aho, Tiina, Uusien budjetointikäytäntöjen kehittyminen ja controllerin rooli.

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Tiivistelmä

Perinteisen vuosibudjetoinnin valta-asemaa johdon ohjausjärjestelmien kulmakivenä on alettu kyseenalaistaa viime vuosina. Budjetoinnin uudet kehityssuuntaukset näyttäisivät joko korvaavan tai täydentävän vakiintunutta budjetointikäytäntöä organisaatioissa. Tämä väitöskirja tarjoaa kokonaisvaltaisen kuvan uusista käytännöistä, sekä niiden vaikutuksista johdon laskentatoimen työhön. Väitöskirja tutkii budjetoinnin eri tehtävien pirstaloitumista sekä sitä, miten controllerin rooli ja uudet budjetointikäytännöt voivat toimia toisiaan täydentävästi.

Väitöskirja muodostuu neljästä toisiinsa liittyvästä esseestä, jotka tuovat laadullisen tutkimuksen keinoin esille, kuinka vakiintunut käytäntö, kuten budjetointi, muuttuu, ja mitä vaikutuksia tällä muutoksella on budjetoinnin eri tehtäviin. Tutkimus tarjoaa myös käsityksen siitä, miten controllerit muodostavat kokonaiskuvan budjetoinnillisesta ohjausjärjestelmästä ja tuottavat uutta laskentatoimen informaatiota.

Tämä väitöskirja kuvaa budjetoinnin muutosta käsitteellä pirstaloituminen (fragmentation). Se voidaan määritellä järjestelyksi, jossa uutta, erilaisten ohjausmenetelmien yhdistelmää käytetään palvelemaan budjetoinnin eri tehtäviä, ja jossa yksittäinen budjetointiprosessi joko korvautuu tai täydentyy muilla ohjausmekanismeilla. Tämä käsite tarjoaa yhteisen nimittäjän viimeaikaisille budjetoinnin kehityssuuntauksille, mutta auttaa myös ymmärtämään paremmin budjetoinnin eri variaatioita. Budjetoinnin pirstaloituminen hämärtää budjetointijärjestelmän rajat, mutta mahdollistaa myös joustavuuden suunnittelun järjestelmään itsessään. Controllerin roolin näkökulmasta budjetoinnin pirstaloituminen merkitsee budjetoinnin eri menetelmien välisten yhteyksien koordinoitua, laajempaa kommunikaatiota ja vuorovaikutusta organisaation eri toimijoiden kanssa, uusien liiketoimintaorientoituneiden taitojen lisääntymistä sekä ammatillisen roolin korostamista laskentainformaation realismiin parantamisessa budjetoinnin lateraalissa suunnitteluprosessissa.

Asiasanat: Beyond Budgeting, budjetoinnin tehtävät, budjetointi, controllerin rooli, rullaava ennustaminen, suunnittelu, tavoitteiden asettaminen

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December 2016

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List of original essays

This thesis is composed of an introductory chapter and the following essays, which are referred to throughout the text by the Roman numerals indicated below:

- I Henttu-Aho T & Järvinen J (2013) A field study of the emerging practice of Beyond Budgeting in industrial companies: An institutional perspective. *European Accounting Review* 22(4): 765–785.
- II Henttu-Aho T (2016) Enabling characteristics of new budgeting practice and the role of controller. *Qualitative Research in Accounting & Management* 13(1): 31–56.
- III Henttu-Aho T (2016) Balancing the conflicting purposes of planning and target setting in modern budgetary control. Manuscript.
- IV Henttu-Aho T & Järvinen J (2016) A network approach to communication in modern budgetary control – analysis of the rolling forecasting process. Manuscript.

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1 Introduction

1.1 Background

In the accounting literature, budgeting research has always been strongly linked to practitioners' concerns over the usability of the system (Covaleski *et al.* 2003). Therefore, the criticism of budgeting has, over the decades, given rise to various debates in both academic and practitioner literature, and budgeting has been one of the most extensively studied topics in management accounting (see Luft & Shields 2003). Quite early on, the close link found between existing practice and observed *dysfunctional* effects of budgeting led to organisational and behavioural approaches being applied in academic research, with a focus on the themes of budget participation and bias in budgeting (Argyris 1952, Lowe & Shaw 1968). The current concerns of budgeting practitioners are related more generally to *functional* aspects of a system, an emphasis that has led to proposals to improve budgeting or abandon it entirely (Hansen *et al.* 2003). Those who focus on *planning* problems associated with budgeting advocate improving it, and those who focus on *performance evaluation* problems propose abandoning the traditional budgeting process. Both approaches can be broadly categorised as part of the Beyond Budgeting debate. Endeavours of this nature point to a need for better understanding the role of functions of budgeting in new budgetary control.

Even though there is evidence of some improvements in budgeting, in the form of parallel use of rolling forecasts and the Balanced Scorecard (Ekholm & Wallin 2000, Libby & Lindsay 2010), academic researchers have been more interested in in-depth investigation of companies that have been explicit in their radical aim to abandon budgeting and implement Beyond Budgeting, a new idea of management control without a budget (Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013, Becker 2014, Sandalgaard & Bukh 2014). From the perspective of management control systems, these studies demonstrate that, instead of one budgeting process, focused on fixed performance targets, there is now a new mix of diverse controls, formed of activities similar to those in budgeting but more clearly split into separate processes. This fragmentation of practices and expansion of focus to various purposes of budgeting has been found to have been followed by various organisational and behavioural effects – the role, mindset, behaviour, and power balance of organisational actors have changed; new interaction patterns and rules of action have emerged; and supply of and demand for managerial

information have been altered. In particular, findings indicate that the controller's role in the budgetary process is becoming more important than before (Østergren & Stensaker 2011). This shows that organisational factors and the roles of organisational actors are important in studying new developments to budgeting and can also be expected to influence the constitution of practice.

It is noteworthy that some of the studies referred to above imply that there is no uniform configuration for the concepts within Beyond Budgeting or non-budgeting in practice. For example, Sandalgaard and Bukh (2014) found that companies that changed their budgeting practices with inspiration from Beyond Budgeting retained fixed budget targets, and Becker (2014) refers to a broad range of controls that fill the place left by budgets. Sponem and Lambert (2016) support this view of the modern budget as a 'set of practices', with various configurations emerging, as the styles of budget design and use dictate. This conclusion is in line with previous studies of new management control systems such as the Balanced Scorecard or activity-based costing: it is clear that there can be differences in the content and ways they are used, and companies may sometimes take advantage of only some elements of the new system (Malmi 2001, Jones & Dugdale 2002). Since Beyond Budgeting ideas are not as widely diffused as many other management control systems (Johanson 2013), it is justifiable to expect that, for the most part, the advances in budgeting might still be incremental and stem from on-site development in organisations (see Ekholm & Wallin 2000, Frow *et al.* 2010).

Nevertheless, budgeting is more than just a collection of techniques (Flamholtz 1983). Modern budgeting can be seen within a wider context of management control wherein multiple, inter-related mechanisms combine or act together and can generate various control arrangements (see Bedford & Malmi 2015). Therefore, management accountants' work too should be investigated within the context of practice, wherein various activities carried out may differ in the styles of management accounting function they generate (Lambert & Sponem 2012). This dissertation has been motivated by findings from previous studies that, in tandem with fragmentation of budgeting and enabling approaches to budgetary control, the role of controller is becoming stronger than before and may create complementarity between budgeting and controllership (Chapman 1998, Järvenpää 2007, Hartmann & Maas 2011, Østergren & Stensaker 2011). Therefore, a joint role of controller and business partner wherein control shifts closer to the management can actually enable controllers to take part in the formalisation of control systems (Byrne & Pierce 2007). A research gap appears to remain between the streams of literature addressing the budgeting and the controller role, notwithstanding these initial

findings on the relationship between the two. The possible interdependencies and complementarity between control mechanisms and management accounting work mean that boundaries may be blurred in the new arrangements and that these hence can be difficult to study from a distance. This view is supported by previous calls for empirical research into new budgeting practices and budgeting as a part of organisational control in real-world organisational context (Flamholtz 1983, Hansen *et al.* 2003) but also for extensive investigation of other reasons for budgeting than performance evaluation, such as planning and target-setting, especially from the controller perspective (Hansen & Van der Stede 2004). There is little empirical evidence of how management accounting and other organisational features can reinforce each other and constitute various sets of practices beyond the *ex ante* typologies of modern budgeting. In particular, we lack information on how organisational actors such as controllers can promote the interdependence and complementarity of various practices in modern budgetary control, especially in light of how important budgeting has conventionally been in their work (Mouritsen 1996, Malmi *et al.* 2001).

The amount of academic research on budgeting has been modest in Finland¹. Nonetheless, recent studies have completed the important task of introducing organisational angles to Finnish accounting discussion. For instance, Lukka (1988b) in his doctoral dissertation began to utilise a behavioural perspective in Finnish budgeting research, by inspecting budgeting biasing in organisations. A behavioural approach was later taken in the dissertation of Ihantola (1997), who studied the budgeting climate in its organisational and social context. Hassel's dissertation (1992) provided more knowledge about the effectiveness of budgetary control and communication in an inter-organisational context via a focus on multinational corporations. The aim of those authors has seemingly been to address dysfunctional effects of traditional budgeting through better understanding of behavioural, organisational, and environmental effects of decentralised decision-making and participation in the budgeting process. In contrast, the present work is intended to open new avenues of budgetary research, not only in a Finnish context but also for academic work in accounting generally, by adopting a broader empirical perspective on the functions of budgeting and composition of budgetary control systems in actual organisational context.

¹ Apart from research related to public-sector budgeting and capital budgeting.

1.2 The purpose and structure of the dissertation

The aim with this dissertation is to increase our understanding of the emergence of new budgetary practices and their implications for the role of controller. The purpose is to investigate fragmentation among various purposes of budgeting and the inter-relatedness of controllership and new budgetary control systems. The work explores the emergence of new developments in budgeting at five companies in the steel and paper industry, which represent the traditional core of heavy industry in Finland. The selection of that branch of industry was motivated by an awareness that budgeting had recently undergone significant changes in some companies in this field (Ekholm & Wallin 2000). However, the exact nature of these changes and their organisational impacts were unknown. This provided an interesting starting point for the research, especially in light of the fact that budgeting had previously had a firm foothold in this area of industry in Finland.

The dissertation comprises four essays, which focus on the fragmentation of budgeting and the elements of complementarity between the controller role and new budgetary control systems. The *first* essay explores the emergence of new budgeting practices in the five distinct companies, with the aim of identifying how these new practices serve the traditional functions of budgeting, such as planning, control, and evaluation. Attention is paid to the process of institutionalisation of new budgeting practices, wherein quite different, often contradictory functions of budgeting might be deinstitutionalised in various phases. The *second* essay, investigating the implications of the new budgeting practices for the role of controller, provides an in-depth perspective on the complementarity between new developments in budgeting and the role of controller by addressing the enabling design of management control systems. The focus in the *third* essay is on the differences in the design of control systems and in their use. The essay examines how the conflicting purposes of planning and target-setting are balanced in modern budgetary control. Finally, the *fourth* essay investigates the construction of accounting figures through the communication network of controllers in the lateral budgetary planning process. It expresses a view according to which budgeting, in addition to the widely documented vertical planning, control, and evaluation activities, also entails significant horizontal co-ordination processes that involve cross-function communication. The entire dissertation contributes to the growing body of literature on new developments in budgeting but also is intended to bridge the gap between research into modern budgeting and into the controller role.

The remainder of the introductory part of this dissertation is organised as follows. Sections 2 and 3 introduce the recent developments in budgeting and the context of management accounting work. Then, Section 4 presents the research design, including the research questions, the theoretical frameworks applied, and methodological issues. In the final section, the main results presented in each essay are addressed, with discussion of wider implications of the findings.

2 Budgeting

Budgeting is one of the most widely studied topics in management accounting (Luft & Shields 2003). This stems from the sheer number of branches of management accounting that budgeting serves, among them cost accounting, decision-making, responsibility accounting, performance measurement, management control, planning, and rewarding (see Covaleski *et al.* 2003). Budgeting is argued to have many benefits. In particular, it is considered to increase organisations' efficiency by enabling the planning and co-ordination of activities but also to promote learning and control through comparison of actual results to plans. However, budgeting has been viewed in a critical light since the very beginning in business organisations. This criticism has led to two important reforms in the area of budgeting: firstly, efforts to *decentralise* the process of setting budgetary goals in organisations and, secondly, the *fragmentation* of budgeting, wherein various management accounting methods complement or replace the annual budgeting process.

2.1 Decentralisation in traditional budgeting

In management accounting literature, the aim of decentralising the process of setting budgetary goals has generated two streams of discussion, which are closely intertwined: works on participation in budgeting and on budgetary biasing. The reasoning in the former typically involves the argument that decentralisation of target-setting may have a positive correlation with managerial performance and motivation. However, it is also argued to provide managers with opportunities for budget gaming and for biasing the budgets. Budgetary biasing is intertwined with the notions of slack and achievability of budgets, through which deliberate biasing is seen to create 'easy' budgets. These concepts are elaborated upon next.

2.1.1 Participation in budgeting

Practitioners have become increasingly aware that the use of budgets for responsibility accounting and assigning specific individuals to deliver a budget plan can actually decrease the efficiency of the organisation, by exerting a negative influence on people's behaviour. Therefore, instead of letting the top management set a profit goal for the year, it is seen as important to convey a sense of group

decision within the budgeting process, whereby the group is led to accept or reject something new in budgeting in a decentralised manner.

Argyris (1952, 1953) was among the first to document an example, from a qualitative field study, of human problems related to budgets. Interviews with several plant managers and controllers, along with observations related to their work, provided evidence that budgeting can have adverse effects on employees' mental state and behaviour. Argyris recommended participation in the budgeting process as a way of minimising negative attitudes towards budgets. The best way to gain acceptance of the budgets is to enable supervisors' true participation in setting the budgetary goals that inevitably affect them. This suggestion actually pointed to the need to decentralise the initial top-down-driven target-setting process for budgeting in order to mitigate dysfunctional effects of budgeting.

Later works such as those of Hopwood (1972) and Otley (1978) recognised that accounting measures can serve various purposes in organisations and can represent various styles of evaluation. Accordingly, the use of budgets does not always result in defensive behaviour in organisations. Hopwood's research on applying a budget-constrained management style supported the findings of Argyris by showing that when budget measures are overemphasised, they can generate distrust and rivalry between managers and cause difficulties in the relationship between superior and subordinate. Hopwood found that when, in contrast, the measures are used in a profit-conscious style or non-accounting style, significantly less tension and rivalry may result. This finding indirectly highlights that participation of managers cannot be seen as an inherent component of the budgeting process, and it is rather more useful in situations of conflict. Taking Hopwood's ideas further, Otley found that not only do variations in the style of budgeting explain the differences in performance but also the divergence in the budget's emphasis between superior and subordinate is critical: how dysfunctional the outcomes of budgets are depends on whether the subordinate agrees with the supervisor about the way his or her performance is evaluated. Otley's study reveals that tension can actually exist independently of budget style. This suggests that the participation and the style of budget use should be matched to the organisation type and to the environment in which a given organisation operates.

Decades after the initial suggestion by Argyris, budgetary participation became one of the most popular topics of discussion, in the 1980s (Merchant 2012). Interestingly, subsequent empirical studies have offered diverse results with regard to the effects of participative budgeting. The foci of these studies have been criticised in many respects in the years since. For example, lack of generalisability of

the findings and lack of integrative models have prevailed (Shields & Shields 1998, Merchant 2012). Moreover, the studies have stressed static aspects of budgeting such as the relationship between the participation and budget-related behaviour instead of focusing on the role of budgeting in the overall organisational control structure (Flamholtz 1983). In the absence of broader examination of the inter-relatedness of various purposes of budgeting and the influence of other organisational actors than managers in budgeting, the understanding of budgeting that results can end up being very narrow indeed.

2.1.2 Budget bias, budget slack, and budget gaming

Another major concern raised in the accounting literature has been that when managers are allowed to participate in setting their budget-related targets, bias or slack in budgets may result. The concept of budgetary bias is relevant with regard to budget proposals' preparatory and negotiation phases. Lukka (1988a) defines bias as a deliberately created difference between the budgeting actor's honest subjective budget estimate and the budget figures submitted. One traditional element of bias is budgetary slack, which is described as resulting when a subordinate deliberately overestimates the resource requirements or understates the production capabilities input to the budget according to which his or her performance will be evaluated (Young 1985). In agency literature, budget slack is linked to the issue of information asymmetry between superior and subordinate, with the subordinate expected to exploit an informational advantage to create budgetary slack. Fairly early on, Lowe and Shaw (1968), in their qualitative field study set in a retail chain, were able to provide evidence of the connection between participation of subordinates and the creation of budgetary slack. Their fieldwork-based analysis showed that the managers had an opportunity to bias their budgets, which were linked to rewards; they were able to bend their estimates downwards so that the budget could be adhered to more easily (budget slack). Also, in 'upward bias', sometimes poorly performing managers introduced overly optimistic estimates to please their superiors.

Since then, several analytical and experimental studies have been done to investigate various mechanisms that can reduce budgetary slack. These studies suggest that slack can be diminished by means of truth-inducing pay schemes, wherein subordinates are rewarded on the basis of their division's contribution to overall profits (Chow *et al.* 1988), or through use of the same budget for both planning and performance evaluation, such that upward bias related to resource

allocation gets counterbalanced with the downward bias related to setting of performance targets (Fisher *et al.* 2002). However, since research of this sort seems to offer simplified representations of complex organisational realities, it may have limited applicability in practice. Furthermore, contemporary literature on budgetary slack does not regard it as purely dysfunctional; it has been found to be useful in some demanding conditions under which managers may require flexibility to meet non-financial goals (Davila & Wouters 2005), in contexts of innovation (Nohria & Gulati 1996), and in business units pursuing a differentiation strategy (Van der Stede 2000). This further underscores the need to study budgeting in its organisational context.

Budget gaming can be viewed as a wider concept than budgetary bias or slack. In this form of dysfunctional behaviour, managers attempt to manipulate the budgeting system either in advance, by creating slack in budgets, or afterwards, by using unspent budgeted money, deferring necessary expenditures, arranging sales transactions near period-end, and taking a 'big bath' in a bad budget year by advancing some expenditures so that the following year's budget is easier to adhere to (Libby & Lindsay 2010). It is noteworthy that some recent budgetary studies imply that gaming is not only seen with an annual budgeting process – there is evidence that new games may emerge after companies abandon budgeting (Østergren & Stensaker 2011).

2.2 Fragmentation of budgeting

The concept of fragmentation plays an important role in this dissertation. Fragmentation of budgeting refers here to an arrangement in which, instead of one budgeting process, a mix of multiple controls is used to serve various purposes of budgeting. This can be regarded as a common denominator for all new developments in budgeting, whether the annual budgeting process is replaced (as in Beyond Budgeting) or complemented with other control mechanisms.

2.2.1 Emerging developments in budgeting

Recent literature on new developments in budgeting has introduced plenty of new concepts, such as advanced budgeting, better budgeting, non-budgeting, and Beyond Budgeting (Bunce *et al.* 1995, Hope & Fraser 2003, Neely *et al.* 2003, Becker 2014). The ambiguity related to these various concepts indicates that the conceptualisation of new budgeting practice is not well established. These terms

can all be roughly divided into two categories: ‘better budgeting’ and ‘non-budgeting’, reflecting the idea of improving or abandoning budgeting, respectively (Hansen *et al.* 2003).

In ‘better budgeting’ methods, organisations continue to use budgets for control purposes and derive considerable value from their use. Better budgeting includes such approaches as activity-based budgeting, zero-base budgeting, value-based management, profit planning, rolling budgets, and rolling forecasts (Neely *et al.* 2003). Bunce *et al.* (1995) associate the concept of advanced budgeting with the use of activity-based budgeting, which places it in the general category of better budgeting.

Becker (2014) uses the term ‘non-budgeting’ for broad illustration of the practice of management control without budgets. He emphasises the potential diversity of controls that fill the place left by budgets but still presumes that fixed or negotiated budget figures are no longer used for purposes of planning, resource allocation, and evaluation. Kaarbøe *et al.* 2013 regard Beyond Budgeting as a specified template that falls under non-budgeting, whereas Ax and Bjørnenak (2005) see that the ‘non-budget management’ is a subset of the Beyond Budgeting approach.

On the whole, recent literature on new developments in budgeting has not been able to reach consensus on the meaning of non-budgeting or better budgeting. For instance, non-budgeting is typically connected to abandonment of fixed targets (Becker 2014), a perspective that points backward, to a focus on dysfunctional effects of the traditional performance evaluation role of budgeting. Such a research approach usually entails adopting strict *ex ante* definitions of non-budgeting or Beyond Budgeting and neglects users’ conceptions of the new methods related to budgeting.

2.2.2 The Beyond Budgeting debate

The important role of budgeting has generated continuous, active discussion among both academics and practitioners. Recent practice-led discussion in the area of budgeting can be labelled as the Beyond Budgeting debate. The aim is to eliminate traditional budgeting (Wallander 1999, Hope & Fraser 2003, Bøgsnes 2009), and Beyond Budgeting can be seen as offering a specified template illustrating non-budgeting practices overall (Becker 2014). The main concern in this radical movement is that traditional budgeting has lost relevance in changing business environments.

The origins of the Beyond Budgeting idea lie with a Europe-based organisation, the Consortium for Advanced Management International (CAM-I), which focuses on developing new mechanisms to serve managerial needs arising from critical business issues. Practitioners' growing frustration with budgeting led to the establishment of specialist groups such as the Beyond Budgeting Round Table (BBRT) in Europe in 1998, with expansion to North America in 2002. The members of that group come from various countries, including Scandinavian countries, the UK, the US, and German-speaking countries (Johanson 2013).

One fundamental principle in Beyond Budgeting is separation among the key purposes of budgeting, such as target-setting, forecasting, and resource allocation. Hence, the annual budgeting process is abandoned and new processes for these three key activities are developed (Bøgsnes 2013). Target-setting work focuses on finding inspiring and 'stretched' targets to avoid gaming and negotiation. The forecasting process is designed to improve information quality by providing unbiased estimates. Finally, the core idea in resource allocation is to provide more flexible decision authority to local teams. All these endeavours are based on Beyond Budgeting principles, where one set is focused on the new processes and a second set consists of principles for changing the style of leadership, with the emphasis on values, autonomy, transparency, and intrinsic motivation (Bøgsnes 2013).

Even though Beyond Budgeting ideas are implemented mainly by practitioners, the BBRT acts in academic partnership with various universities and business schools in, for example, the UK, Norway, New Zealand, and Portugal (BBRT 2016). It is not unusual for such consultancy agendas to emerge as a topic of academic research. The most common example of this is the rise of activity-based costing, its acceptance as an element of accounting academia, and its eventual redefinition (Jones & Dugdale 2002). Recent research has shown that the acceptance and diffusion of such accounting tools is greatly aided by their 'bundling' – i.e., making the innovations compatible with the environment to which they are transmitted, providing legitimacy, and lowering the barriers to acceptance (Ax & Bjørnenak 2005). Academic accounting research still seems to lack understanding of the diffusion of Beyond Budgeting, even though Johanson (2013) has investigated the transferability of this model to Scandinavian and US contexts. His literature-based analysis reveals that the US approach focuses less on the 12 principles of Beyond Budgeting and has more appreciation for an evolutionary approach to the model and an emphasis on rolling forecasting (Player 2003, Bøgsnes 2009, Johanson 2013).

As for academic research, Beyond Budgeting seems to have received increasing attention particularly in Scandinavian countries (Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013, Sandalgaard & Bukh 2014). The emphasis of the associated studies has been on providing description and analysis of the use of new management accounting systems and practices. For example, Østergren and Stensaker (2011) found that new rules of action and interaction patterns emerge in the absence of budgets. Target-setting becomes more strategy-oriented and top-driven, while decentralisation is applied in determination of how to reach those targets. Also, interaction between controllers and sub-managers increases, and controllers take on a more strategic role in the organisation. Bourmistrov and Kaarbøe (2013) investigated behavioural effects of new management control systems and found that separation among the individual key functions of budgeting (chiefly, target-setting, planning, and resource allocation) has facilitated a change in mindset for managers and controllers, which, in turn, promoted a new type of information supply and novel ways of using information in organisations. Sandalgaard and Bukh (2014) found that not all companies that adopt a Beyond Budgeting approach introduce relative performance measurement evaluations; many organisations maintain a fixed budget target. In fact, Becker (2014) found that some non-budgeting companies actually ended up reintroducing fixed targets to their management control systems. Becker deemed this development to be a reversal of the Beyond Budgeting approach, but such findings actually can be seen more as indicating evolving conceptualisation of the Beyond Budgeting approach.

3 The Role of Management Accountant in Budgeting

This chapter considers the role of management accountant (controller) in budgeting from the angles of management accounting profession, organisational practices, and organisational positions of management accounting. This background information is important for understanding the major role of organisational context in shaping Finnish management accounting practices.

3.1 The profession of management accounting

Role changes of management accountants have often been explored from the macro-perspective of the management accounting profession. As most professions are seen to produce intangible ‘goods’, their output is seen inextricably bound to personality of producer (Larson 1977). Therefore there have been endeavours to train or socialise these professionals in order to generate a distinct form for their output. In the words of DiMaggio and Powell (1983: 152), professionalisation can be interpreted as

The collective struggle of members of an occupation to define the conditions and methods of their work, to control the “production of producers” (Larson, 1977:49-52),

Professionalisation is conventionally seen as promoting the mechanisms of normative isomorphism (DiMaggio & Powell 1983). It usually stems from formal education that confers professional legitimacy and from establishment of professional societies. Professional associations and professional schools aim to exert normative pressures to establish and maintain a certain set of beliefs among those within the institution (Leicht & Fennell 2008) but also strive to define the boundaries and membership of the profession. Regulatory bodies such as professional associations have been considered conservative agencies that aim to sustain conformity and reproduction and to retain institutionalised practices. However, professional associations are also seen as capable of promoting diffusion of new practices (Greenwood *et al.* 2002).

At the professional level, there is variation between countries in the institutional arrangements for occupational training and education. In the Anglo-Saxon environment professional institutes such as the UK’s Chartered Institute of Management Accountants (CIMA) and, in the US, the Institute of Management Accountants (IMA) play an important role in shaping the management accounting

profession. These professional bodies provide training for students from various disciplines, and accountancy-related studies are often carried out in parallel with work (Ahrens & Chapman 2000). In Germany, while there is no professional association for management accountants, several private institutions aim to support the development of the German management accounting profession (that of controller)². Controllers are still seen as an important professional group in Germany (Goretzki *et al.* 2013). From the institutional landscape of professions in the Nordic region, the management accounting profession can be understood as weak (Hyvönen *et al.* 2009). Finland has no national professional association for the management accounting profession or other private institutions. Accounting competencies and ideas of new practices are expected to diffuse through business schools' accounting curricula (Malmi *et al.* 2001) or be shaped by the organisational setting (Hyvönen *et al.* 2009). The latter approach is discussed next, in detail.

3.2 Management accounting as an activity

As there is no professional body or other private institution for the management accounting profession in Finland, the professional or occupational role of management accountant is developed mainly through studies at business schools, via training organised by employers, and by means of learning on the job.

Hyvönen *et al.* (2009) suggest that in Finland management accounting can be considered more an activity than a profession. Weak professionalism of this nature can make the production of prototypical management accountants difficult (Goretzki *et al.* 2013). Therefore it is important to investigate the key organisational activities of management accountants, which hint at the knowledge, skills and abilities that are needed for performing those work activities (Malmi *et al.* 2001). Thus professionalism can be studied in organisations through what constitutes the core competence of management accountants (see Hyvönen *et al.* 2009). For example, some survey-based studies in Finland and Denmark indicate that budgeting, planning, and variance analysis are the most important activities in management accountants' work (Mouritsen 1996, Malmi *et al.* 2001).

However, since management accounting tasks can vary greatly in form from one organisation to the next, it can sometimes be difficult to find occupational uniformity, even in the highly institutionalised environments of management

² In Germany, management accountants are called controllers.

accounting (Ahrens & Chapman 2000). Some studies point out that the accounting department's role and work in organisations can be seen developing in their interplay with others rather than through the macro-organisational factors (Mouritsen 1996).

The accounting literature has provided little information about the budgetary tasks of management accountants and about how they interact and communicate with others in budgetary processes. The focus of conventional budgeting research has been mainly on the hierarchical relationship between superior and subordinate, and the role of management accountant has been considered to be of minor importance. Some early budgeting studies indicate that management accountants assist in the process of determining a company's financial goals for the coming year and play a role in finding budget-related errors, weaknesses, and faults (Argyris 1953, Hopwood 1972). The literature has explicitly referred to the monitoring-centred role of management accountants in budgeting (Argyris 1953); however, it seems that 'scorekeeping' and corporate policing take far less time in management accounting work nowadays (Burns & Baldvinsdottir 2005). This is partly explained by the outsourcing and automation of routine accounting tasks (Hyvönen *et al.* 2015), in which more emphasis is placed on the business controllership process and decentralised positions in management accounting (Järvenpää 2007).

3.3 Controllership and budgeting

The concept termed 'controllership' has been ambiguous from the outset (Anderson 1944). Its educational origins are in the curricula of American collegiate business schools (Vatter 1950). In the German-speaking countries, this concept is also closely linked to university education in business administration (Ahrens & Chapman 2000) but also to a 'controlling philosophy' promoted by private institutions that educate controllers (Goretzki *et al.* 2013) and to the broad spectrum of organisational tasks, co-operation, and dynamism that characterises the occupation (Weber 2011).

In Finland, an accounting education at a university or business school is often a prerequisite for holding a controllership position in an organisation (Kurunmäki 2004). The emergence of controller positions in Finland began in the 1990s at large companies that had a global presence (Malmi *et al.* 2001). Management accountants often came to be called controllers, with the specifications of that role varying (Granlund & Lukka 1998). This represented a change in the accounting profession in Finland; it involved an increasing focus on management accounting

tasks. The controllers had an important role in assisting with managerial decision-making by providing essential information to various parties in the organisation (Granlund & Lukka 1998).

Many studies associate this increasing management accounting focus with business-orientation of the occupation (Granlund & Lukka 1998, Järvenpää 2007, Goretzki *et al.* 2013). Järvenpää (2007: 100) defines business-orientation as ‘willingness and ability of management accounting to provide more added value to the management (decision-making and control) of the companies’. In practice, it is about a shift from routine-type ‘bean-counting’ tasks towards business-oriented activities, through which controllers engage increasingly in organisational social networks (Vaivio & Kokko 2006). One important enabler of such business-orientation is an expanded sphere of operations in controlling. From the standpoint of the occupation’s structure, it means decentralisation of the management accounting function, with controllers increasingly positioned close to managers, for separation between business units and between customer- and product-related processes (see Granlund & Lukka 1998, Järvenpää 2007, 2009).

However, some authors argue that decentralisation explains the nature of management accounting work only in part and suggest that accounting departments’ work in organisational activities is actually influenced by relations to and with others in the firm (Mouritsen 1996, Lambert & Sponem 2012). This relational view emphasises that the actual position of the controller is determined by managerial needs for controlling expertise and interplay with others. For example, Lambert and Sponem (2012) identify four implementations of the management accounting function, with each style related to a distinct role in budgeting. The ‘discrete’ and ‘safeguarding’ styles of management accounting are related to a monitoring role in budgeting, wherein the relationship between manager and management accountant can be characterised as distant. A ‘partner’ or an ‘omnipotent’ management accounting function operates close to the management and wields extensive authority. Management accountants devote significant amounts of time and attention to budgetary tasks and participate actively in decision-making, which is, in turn, seen as creating risks of less internal control and more budget gaming.

Recent Beyond-Budgeting-related studies have found that changes in budgetary practices generate new management accounting activities (Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013). In the absence of traditional budgeting, controllers are perceived as more central to supporting the divisions’ management and the sub-unit managers. As targets become determined more and more by environmental factors, the level of control over the targets seems to be

decreasing. In this kind of situation, it is understandable for the emphasis on planning to increase and for forecasting to become a key activity in planning. Controllers are expected to possess new skills in analysis and forecasting and to have better knowledge of the external and internal business environment. Moreover, with the target-setting process being separate from the planning process, controllers are expected to involve themselves in dealing with the gap between targets and planning. Some studies link these advancements in professional skills to greater business-orientation of management accounting (Granlund & Lukka 1998, Järvenpää 2007).

Those studies imply that there is a close connection between new organisational practices and professional development in management accounting. One possible interpretation is that the plasticity of identity seen in the accounting profession is greater than that in other traditional professions (Greenwood *et al.* 2002). If this is the case, it means that the accounting profession can be considered more open to new ideas in the interaction with others in the organisation (see Mouritsen 1996).

4 The Research Design

4.1 The research questions

Even though the new ideas of non-budgeting reached Finland in the early '80s (see Wallander 1981, Näsi & Rohde 2007) and were later reaffirmed by some practitioners (Åkerberg 2006), budgeting seemed slow to change. Practitioners in Finland usually concerned themselves with using budgets such that they correspond to the needs of each company and its business environment (Ihantola & Merikanto 2005). However, the survey-based study of Ekholm and Wallin (2000) revealed that by the end of the 1990s the increasing criticism and new ideas of budgeting had reached even fairly conservative large Finnish companies. These companies had developed hybrid systems in which annual budgeting, rolling forecasts, and a Balanced Scorecard approach were used in parallel. In particular, favourable attitudes towards rolling forecasts as an alternative to budget were, according to Ekholm and Wallin (2000), expected to follow close on the heels of changes in budgetary control. Awareness of the increasing criticism of annual budgeting, some new developments in budgeting, and such changes anticipated for the near future provided the starting point for this dissertation.

However, the most recent movement among academics and practitioners appears to be related to total abandonment of the budgeting process, as in *Beyond Budgeting*. Even though academics have been increasingly interested in this novel concept of budgeting, thus far there has been only limited evidence of radical developments or of companies that have taken the *Beyond Budgeting* path. In general, we know that budgeting practices tend to change slowly (Granlund 2001). Therefore, it is safe to assume that most developments are rather continuous and gradual in nature.

One interesting finding of studies on *Beyond Budgeting* is related to the emphasised role of controllers in the absence of annual budgeting (Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013). There is still little knowledge surrounding the role of controller in modern budgeting. Indeed, literature looking at this role acknowledges that increasing business-orientation in management accounting work can increase the effectiveness of management control and generate pressure for more predictive management accounting methods (Byrne & Pierce 2007, Järvenpää 2007, 2009).

One objective with this dissertation is to close the gap between the streams of literature examining budgeting and the role of controller by addressing controllers'

role as complementary to budgeting. The purpose of the project was to investigate the emergence of new budgetary practices and their implications for management accounting professionals' work in Finnish industrial companies. The dissertation is composed of four inter-related essays, which approach the question presented above from different angles, from the perspective of wider institutional factors but also from the standpoint of the organisation and various organisational actors. Table 1 presents a summary of the research questions tackled in the four essays.

Table 1. The research questions.

Essay	Research question
I	How does an institutionalised practice, such as budgeting, change in industrial companies, and what implications does such a change have for the functions of budgeting?
II	How do the enabling characteristics of new budgeting practices change the role of controller?
III	How are the conflicting purposes of planning and target-setting balanced in modern budgetary control?
IV	How are the accounting figures constructed through the communication network of controllers in the lateral budgetary planning process?

Even though all four essays consider new budgetary practices primarily from the angle of controllers' role, the first and third essay focus more on the inter-organisational and organisation-level aspects of changes in budgeting while the second and fourth piece are attempts at more explicitly addressing the role of the controller and network of controllers in co-ordination of various budget-related processes and communication of budgetary information.

4.2 Theoretical underpinnings

In order to investigate the budgeting practices emerging almost simultaneously in several industrial companies, the first essay of this dissertation explores the change in institutionalised practice of budgeting and the implications of that change for the functions performed by budgeting. To that end, the first essay of the dissertation analyses the emergence of new management control instruments and practices through the lens of traditional functions of budgeting such as planning, control, and evaluation. The study addresses the fact that the abandonment of an annual budgeting and the concomitant fragmentation of budgetary practices exists in a relationship with the functions that budgeting serves in companies. The essay draws

on new institutional theory and, especially, the concepts of organisational field (DiMaggio & Powell 1983) and stages of institutional change (Greenwood *et al.* 2002). The framework of new institutional sociology (NIS) has often been employed in efforts to understand changes in management control systems (Dambrin *et al.* 2007). Researchers applying the NIS framework have sought to explain the diffusion through intra-organisational procedures and to emphasise the role of external factors in the diffusion process (DiMaggio & Powell 1983, Moll *et al.* 2006). More recently, this ‘macro’ approach has been criticised for too often regarding the adoption of new management control practices as taking up ‘ceremonial’ tools and viewing organisational actors as passive adopters of new practices. More recent neo-institutional research is starting to emphasise the role of active agency and the variation in practices (Lounsbury 2008), and this opens new possibilities for expanding the scope of institutional analysis at the micro level. The model of Greenwood *et al.* (2002) enables understanding *non-isomorphic change* in the industrial field of study and therefore may well be able to explain the emergence of several kinds of practices at the case companies and, especially, the organisational actors’ role in that change. According to Kilfoyle and Richardson (2011), if researchers consider budgeting to be only a decision process carried out by rational agents, they leave aside possible constraints on the process and other alternatives shaped by the social and historical context of the organisational actors involved in the process.

The second essay proceeds from the findings presented in the first. It investigates the implications of the fragmentation of budgeting for the role of controller by examining a single organisation in depth. The paper addresses the growing role of controllers in co-ordinating the linkages between various budget-related methods. The focus of the study was on enabling characteristics of new budgetary control systems and the implications of these for controllers’ work. The essay analyses the *formalisation of control systems* (see e.g. Ahrens & Chapman 2004, Jordan & Messner 2012) from the perspective of controllers, whose occupational tasks are largely related to budgeting (Mouritsen 1996, Malmi *et al.* 2001). The theoretical framework applied is based on the typology of Adler and Borys (1996), who classify the characteristics of a system design as enabling or coercive on the basis of formalisation in bureaucracies. The focus of the essay is on four enabling characteristics of management control: repair, internal transparency, global transparency, and flexibility. Examining these elements aids in understanding how controllers perceive the fragmentation of budgeting and the way it affects their work. This approach aims to develop a theoretically sound

explanation for the relationship between changes in control systems and the role of controller.

The third essay is based on the findings described in the first and second essays. It pays attention to the fragmentation of budgetary practices and to reconciliation of two conflicting purposes: target-setting and planning. This essay investigates the differences in the *design and use of control systems* across three paper companies (e.g., Sponem & Lambert 2016). It focuses in particular on the ways of balancing the information yielded by the processes of motivational target-setting and more realistic forecasting. The piece draws on the diagnostic and interactive elements of the Levers of Control framework proposed by Simons (1995) and reformulated by Tessier and Otley (2012), but it also differentiates between concepts of balance and balancing in the use of control systems (see Simons 1995, Henri 2006, Widener 2007, Mundy 2010) to analyse how interactive and diagnostic uses of control systems are balanced when separate budgetary processes are devoted more fully to their inherent purposes. Many management accounting studies consider budgeting to be the main tool serving a diagnostic role in organisations (Abernethy & Brownell 1999). Even though every control system can be used either diagnostically or interactively (Simons 1995), some researchers have found that planning-related purposes of budgeting in particular often require interactive use (Chong & Mahama 2014). Fragmentation of budgeting provides an interesting standpoint for investigation of what kinds of interplay there might be between interactive and diagnostic control systems (Haas & Kleingeld 1999, Widener 2007, Mundy 2010), particularly what kind of influence one of these two levers of control may have on the other. Balancing use of control systems has a critical role in the creation of dynamic tension (Simons 1995, Mundy 2010), which can be used for improving organisational performance. Not all firms appear keen on creating this kind of tension, especially where it might disturb prevailing control values or where uncertainty in the environmental does not create challenges (Henri 2006). The theoretical approach applied in the third essay allows comparison of the use of control systems in parallel with the budgetary design (better budgeting and non-budgeting) between the three case companies and, hence, better understanding of the separated and integrated roles of various systems.

The fourth essay, in turn, addresses one important finding presented in the second and third essays: that of the increasing role of communication in new budgetary control. The essay investigates the construction of more realistic accounting information through the network of controllers and the role of professional judgement in the lateral planning process. The study for that essay

extended the idea of budgeting as a vertical process between superior and subordinate to cover also the lateral process of forecasting, in which the network of controllers plays an important role. The essay draws from the theoretical concept of emergent communication networks (Monge & Eisenberg 1987, see also Ranson *et al.* 1980). In addition to the widely documented vertical planning, control, and evaluation activities, budgeting is revealed to entail significant horizontal co-ordination processes that involve cross-functional communication (Chapman 1998). The core theoretical concept in the essay, *emergent communication networks*, is used to provide more information about the role of controllers in supporting new aims for planning (see Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013). The essay offers a framework designed to integrate three distinct traditions, from positional, relational, and cultural approaches, in the analysis. It, firstly, assists in investigation of relations among various controller positions, with the intention of illustrating how the positions and their roles are formally defined (a positional view). Next, it enables following the interaction between participants in the forecasting process and possible generation of new roles (a relational view). Finally, it focuses on how organisation members create a shared understanding of forecasts and illustrates how participants commit themselves to such interpretations (a cultural view). The essay makes use of organisation theorists' views of sharing meaning across occupation boundaries (Prencipe & Tell 2001, Bechky 2003, Lazaric *et al.* 2003, Cacciatori 2012). They emphasise the interaction between various occupational groups, transformation of knowledge, role of artefacts in settling conflicts, and the role of knowers who draw upon several sources of knowledge in their actions.

4.3 Methodology

Qualitative research methodology enables answering the various 'how' questions set for this research and shaping our understanding of how various elements in budgeting are formed, work, and interact (see Eriksson & Kovalainen 2008). Case-study methodology was chosen to study these evolving phenomena, but approaching the various angles fundamental to the research demanded selection of several forms of case-study methodologies. These included cross-sectional, longitudinal, multiple-case-study, and single-case-study approaches.

For gaining an understanding of the overall situation of budgeting change at the inter-organisational level, it was important to carry out a *cross-sectional field study* (Lillis & Mundy 2005) initially, at five industrial companies. The reason for

the adoption of this qualitative field-study methodology was that it has been found to be suitable for investigating emerging phenomena (see, e.g. Malmi & Ikäheimo 2003, Lillis & Mundy 2005). In accounting, this kind of research can be regarded as exploratory, with the objective being to explain the case in a tentative manner (Scapens 2004). This tentative explanation of change is supported by the extensive case-study method, wherein the aim is to collect similar empirical data for each case company in the research (Eriksson & Kovalainen 2008). In addition to changes in budgeting, this approach aided in obtaining information about institutional elements that influence the change in the organisational field. However, as field studies represent a preliminary investigation of the developments and hence can be seen as providing only limited exposure to each organisation (Malmi & Ikäheimo 2003), further, in-depth studies were needed for understanding how the various new elements of budgeting interact and influence organisational actors.

For the second essay, the longitudinal case-study approach was used to increase understanding of organisation- and individual-level aspects of change. Because *longitudinal case studies* provide an opportunity to investigate how various factors interact in a given context (see Burns & Scapens 2000), they also enable exploring the anticipated complementarity between new developments in budgeting and the controller role. This approach aids in following the emergence of enabling characteristics of new control systems and uncovering the perceptions of organisational actors.

With the third essay, the idea was to develop the work on three of the cases so as to gain comparative insights into the tension between two key purposes of budgeting (target-setting and planning). *Multiple-case studies* are very close to single-case studies from the perspective of method and methodology. However, they allow one to investigate the diversity of research issues and draw some conclusions as to differences at the organisational level and thereby even extend the theory (Scapens 2004). Since the findings presented in the first essay suggest that fragmentation of budgeting may better enable balancing the tensions between budgetary practices, it may be that not all firms necessarily want to use this balancing to create a dynamic tension in their organisation. Therefore, it was important to choose three companies from the same branch of industry and investigate the differences in their practices and the underlying reasons for these.

For the fourth essay, *single in-depth case-study* methodology was employed. This kind of approach enables us to follow the communication and compilation of accounting information within one particular organisational process. Recent budgeting studies have found that horizontal communication and collaboration

appears to increase in tandem with adoption of new budgetary practices; this, in turn, establishes new interaction patterns and dependencies in the organisations (Frow *et al.* 2010, Østergren & Stensaker 2011, Bourmistrov & Kaarbøe 2013). The essay employs a qualitatively oriented approach to social-network research (e.g., O'Donnell & Cummins 1999, Eisenberg & Goodall 2004, Bertolotti & Tagliaventi 2007). This approach shows how the key challenge in social-network analysis – namely, defining network boundaries – can be dealt with via qualitative methodology.

At the level of the dissertation as a whole, the attempt has been to analyse change and variation in organisational practices through multiple lenses. Since the application of NIS (in essay I) enabled broadening the perspective beyond isomorphism and symbolic conformity, it also provides opportunities for bridging to other theoretical perspectives (Lounsbury 2008) and employing theoretical triangulation to explain the variation in budgetary practices. Several management accounting researchers have recently combined NIS with other theoretical perspectives (Hopper & Major 2007, Modell 2009, Rautiainen & Scapens 2013). Hoque and colleagues (2013) argue that the plurality in theory adds more depth and richness than any single theory offers. For example, examination of multiple layers of the organisational environment (such as inter-organisation, organisational, and individual) is necessary in accounting research for understanding the many roles of accounting information. The various theoretical perspectives applied for this dissertation can complement each other in examination of these layers of the organisational environment. For example, institutional literature (see Thornton *et al.* 2012) recognises that field-level change can also be spurred by endogenous shifts in the organisational dynamics of bureaucracy (Adler & Borys 1996), wherein the logic of usability encourages individuals to use their skills and experience (see essay II). Moreover, the dissertation answers the call by Tessier and Otley (2012) to explore the possible links between new developments to the Levers of Control framework (see essay III) and institutional theory. It implies that, for example, interactive use of control systems by individuals may promote the institutionalisation of new practices at organisation level. Also, network theories (see essay VI) have had an important role in the institutional framework for understanding of macro-level similarity between organisations (DiMaggio & Powell 1983). However, the joint use of communication network theory and NIS, as seen in this dissertation, is also capable of providing a micro-level illustration of how organisational structures and practices take shape and thus contribute to the institutionalisation of new budgetary practices. Therefore, although the individual

essays focus on specific layers of the organisational environment and on analysis from the various theoretical perspectives described, they combine in a dissertation that captures the multilevel complexities of the budgetary change by means of theoretical triangulation.

The primary data used for the dissertation come from 51 interviews, carried out in four separate sets. The preliminary interviews were carried out in 2007–2008, the second batch in 2009–2010, the third in 2011, and the final interviews in 2014. All interviews were recorded and transcribed, for facilitation of the analysis. It is important to note that, in addition to the basic data-collection, there were always some supplemental interviews carried out for each of the subsequent essays (essays II, III, and IV). Additionally, secondary data sources were used, such as e-mails from interviewees, organisation charts, descriptions of functions, and public press releases.

From the perspective of the dissertation project as a whole, the data analysis can be seen following abductive reasoning, as it enables moving ‘back and forth’ between empirical findings and theoretical viewpoints. The process allowed constantly asking new questions in the course of the study and consequently also to collect new data for answering those emerging questions (see Dubois & Gadde 2002). This supports the idea that theory can only be understood by observing empirical phenomena and vice versa. In the research process taking a pragmatist position of this type enabled bringing new dimensions to budgeting research, thereby ultimately resulting in a new view of the budgeting itself. Such analysis of data also supports the interpretive approach applied for this dissertation (Lukka & Modell 2010).

On the whole, this dissertation approaches the research questions from an interpretive research perspective, with the aim of making sense of meanings attached to various budget-related practices and controller’s tasks. In fact, the dissertation reflects perspectives of both ‘emic’ and ‘etic’ modes (Kakkuri-Knuuttila *et al.* 2008). The emic perspective refers to the research being open to the interviewees’ accounts of the new methods related to budgeting and new roles of the controller in budgeting work. Thus, the research avoided strict *ex ante* definitions of budgeting, Beyond Budgeting, or business-orientation. Nevertheless, the interpretive approach requires reverting to the etic mode, by reflecting on our findings in light of previous management accounting research in order to provide a well-articulated theoretical contribution (see Kakkuri-Knuuttila *et al.* 2008, Keating 1995).

5 The Main Findings and Concluding Remarks

This work has contributed to our understanding of the incremental emergence of new developments in budgeting and their implications for the role of controller. Analysis from the angles of organisational field, organisation, and organisational actor enable getting a comprehensive picture of the variation in modern budgetary practices, the role of budgetary functions in modern budgeting, and implications of new practices for management accounting work. In particular, the results presented in the dissertation represent detailed empirical knowledge about the fragmentation across various purposes of budgeting and the complementarity between controllership and new budgetary control systems.

The results presented in the first essay (Henttu-Aho & Järvinen 2013) support the expectations seen in previous literature (Ekholm & Wallin 2000) as to the imminent changes in budgeting. The empirical findings of this dissertation were able to demonstrate that increasing budget-related criticism and emerging budgetary practices had led to major developments in the budgetary control systems of Finnish industrial companies. All five case companies in the paper and steel industry had abandoned budgeting in its traditional form as a single annual process of management control. The traditional master budget as a formal document and longstanding process was fragmented into a collection of various tools. However, in considering what functions of budgeting these tools served and how they were integrated, it is possible to state that there was variation in practices and some kind of budgetary control remained in all these organisations. The key finding described in the first essay is that the abandonment of an annual budgeting process actually is related to the functions (e.g., planning, control, and evaluation) that budgeting serves in the relevant company (see Sivabalan *et al.* 2009). This is an extension from the conclusions of Østergren and Stensaker (2011), as it means that in the absence of an annual budgeting process, various management accounting tools may gradually come to replace the functions that budgeting serves, not budgeting in its totality. It is this finding that has been conceptualised as *fragmentation* of budgeting.

The second essay (Henttu-Aho 2016) takes a deeper look at the emergence of modern budgeting practices in one paper company and offers the argument that the implementation of a rolling forecasting process is actually an especially significant attempt by controllers to remedy the incompleteness of accounting information related to traditional budgeting (cf. Jordan & Messner 2012). This essay shows that when the top management allow controllers to draw on their professional skills,

experience, and knowledge upon discovering problems in systems, the outcome can be an incremental change process wherein technology adapts to the organisation and not vice versa (see Jørgensen & Messner 2009). In particular, it seems that decreasing predictability in the paper business imposed pressure for more proactive planning and opened an opportunity for controllers to apply their professional knowledge and decentralised positions for developing the planning process and new business-oriented skills in their work (Järvenpää 2007). This implementation of rolling forecasting was actually a decisive step for fragmentation of budgeting and enabling the formalisation of control systems in the case company.

The third essay in the dissertation pays attention to the design and use of control systems in three paper companies (see Sponem & Lambert 2016). The essay differentiates between *better budgeting* and *non-budgeting* types of designs in budgetary control and shows that the new developments in budgeting are mixes of various budget designs and budget uses in companies. The essay points out an important finding in relation to the difference in nature between the concepts of balance and balancing. The essay argues that non-budgeting-type decoupling of planning and target-setting processes forces companies to continuous balancing among the various purposes of budgeting proactively. In a contrast to retrospectively balanced system, wherein assessment of actual deviations from the budget generates remedial actions, the remedial actions in *proactive balancing* are performed before effects of deviations have been actualised. Proactive balancing between planning- and target-setting-related information takes advantage of the conflicting aims of the two processes and employs a more interactive approach by various organisational actors in planning and decision-making processes, wherein diagnostic targets are needed to facilitate the discussions. This shows a resemblance to the 'interactive budget' identified by Sponem and Lambert (2016) and to 'continuous budgeting' as described by Frow *et al.* (2010); however, the essay provides more detailed knowledge of the interdependence among various modern budgetary practices, serving distinct purposes (Widener 2007, Grabner & Moers 2013). On one hand, interactively compiled forecasts can serve as a realistic basis for diagnostic targets, which suggests that budget negotiations are not necessarily needed for informing superiors as to the realistic level of performance on the basis of which more challenging and motivating targets can be set. On the other hand, diagnostic targets can be seen as a challenge informing the planning-related discussion in an organisation and, accordingly, result in revision to either the plans or targets in the organisation.

The fourth essay points out that both the fragmentation of budgeting and the new, more dynamic planning processes generate wider and more *horizontal communication* structures between various organisational actors and occupation-based groups in addition to the vertical relationships between superior and subordinate that are portrayed in conventional budgeting literature (Parker & Kyj 2006). This essay contributes to the discussion surrounding a horizontal dimension of accounting and budgetary communication (see Chapman 1998, Chenhall 2008) by emphasising controllers' role in the horizontal planning process. The essay shows that the rolling forecasting process in particular is becoming a key process in planning and entails significant horizontal co-ordination, wherein controllers interact increasingly with various cross-occupation actors and use function-specific artefacts (analyses conducted in sales and production) in their efforts to confirm the realism and acceptability of forecast information (Cacciatori 2012). More precisely, the fourth essay argues that realism of forecasting and planning means that the figures are discussed widely and with relevant functions, which, in turn, emphasises the socially constructed nature of the forecast information and an increasing role of controllers' professional judgement in budgetary control (e.g., Fauré *et al.* 2010, Lantto 2014, Goretzki & Messner 2016).

In sum, the findings presented in the dissertation introduce the novel concept of *fragmentation in budgeting*, defined as an arrangement in which a new mix of several controls is used to serve various purposes of budgeting and wherein a single, monolithic budgeting process is either replaced or complemented by other control mechanisms. This description characterises recent developments in budgeting, better budgeting, or non-budgeting well, and the conceptualisation aids in identifying the initial purposes of various budgetary practices and, accordingly, gaining a better understanding of the variation among companies in the new budgetary practices adopted. This kind of approach also enables tracing the interdependence relations between various budgetary practices. A summary of the functions of various budget-related methods seen in the paper and steel industry is presented in Figure 1 to clarify the concept of fragmentation.

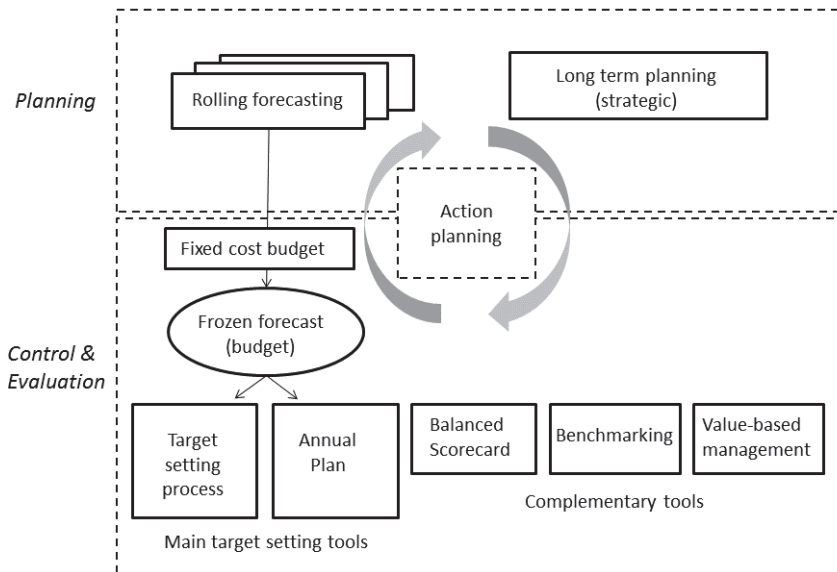


Fig. 1. Functions of various budget-related methods in the case companies.

Figure 1 shows that the importance of *rolling forecasting* has clearly increased, and taken over the planning function of annual budgeting. It has become an important tool for giving a fresh and realistic perspective on the changes in the business. One version of a rolling forecast, a *frozen forecast*, is used as a basis for either target-setting or an annual plan, which are *the main target-setting tools* and key methods serving the control and evaluation functions of budgeting. These are supported by some *complementary tools*, such as Balanced Scorecards, benchmarking, and value-based management. Another pillar for setting of organisational short-term goals is *long-term planning*, through which strategic priorities are communicated. One remnant of traditional budgeting, *fixed-cost budgeting*, serves as an important method for cost control at cost centres both in support functions and at the plant level, constituting also an element in rolling forecasting information. Figure 1 illustrates nicely that, in line with the conclusions of Frow *et al.* (2010), *action planning* can be seen as a boundary system reconciling competing demands and balancing tensions among the individual functions of budgeting.

From a practical point of view, this kind of fragmentation of budgetary tools seems to have various implications for organisational actors, as it renders the boundaries of the system blurred but also enables using various parts of the system differently.

With this finding, the dissertation sheds valuable light on the issue of *complementarity* between budgeting and the role of controller (Chapman 1998, Hartmann & Maas 2011) by suggesting that in a fragmented budgetary system, *flexibility* can be designed into the control system itself (cf. Jordan & Messner 2012) rather than created via generation of slack in budgets. This development is followed by a more communicative and co-ordinative role for the controller and the network of controllers³ (see Østergren & Stensaker 2011). The increasing flexibility meant that controllers in the case companies were able to handle the emerging unclear boundaries of the fragmented budgetary system and respond to the actual purposes behind the practices in various ways. *Firstly*, centralisation of routine-type accounting duties in a shared service centre was followed by the development of an influential network of controller positions and the idea of controllership, which helped controllers to build a holistic view of the totality of control and to supply more relevant information within the organisation. *Secondly*, the new budgetary practices generated new interaction patterns and communicative linkages between controllers and other organisational functions. In particular, the increasing emphasis on constructing more forward-looking accounting information necessitated new competencies and skills, many of which promoted business-orientation in management accounting work (Järvenpää 2007). *Thirdly*, the dissertation shows that, as forecasting becomes a key process in the planning in modern budgeting, alongside the co-ordination performed by managers (cf. Goretzki & Messner 2016), controllers can play an important role in facilitating unbiased communication of information by confirming that all participants in the forecasting process have a common understanding of the meaning of realistic figures and that the information is constructed from diverse points of view (consensus). This indicates the presence of new participative elements and collectivisation of judgement in lateral processes of budgeting but also manifests the professional judgement of controllers in assessing the figures' feasibility.

The dissertation shows how not only the accounting department's role but also professionalism can develop in management accounting through the activities and interplay with others witnessed in the relevant organisations (Mouritsen 1996). The findings presented in this dissertation diverge from the ideas of Kurunmäki (2004), who points out that management accounting in Finland has conventionally been seen as a set of tools and techniques that can be easily transferred across

³ Controllers at various levels of the organisation and decentralised controllers who are part of the controlling function.

occupational boundaries and applied by various occupation-based groups and therefore suggests that management accounting should be described as a craft rather than a profession. Quite to the contrary, the results of the dissertation project imply that, in particular, fragmented budgetary processes need to be controlled by an organised professional group, a network of controllers. In the absence of regulatory bodies for management accounting in Finland, controllers seem to organise and structure their work such that they can manage cross-function communication and the information content of various interlinked practices in budgeting but also support the varying budgetary needs of multiple organisational groups. This kind of 'organisational structuring of professional work' aids in coordinating and standardising the behaviour of professionals and supports both vertical and lateral dimensions of decentralisation (Mintzberg 1980, Noordegraaf 2011).

The diverse theoretical perspectives employed for this dissertation provide an important basis for understanding developments in budgeting holistically. Macro-level analysis based on new institutional sociology and understanding of stages of institutional change (Greenwood *et al.* 2002) has enabled studying changes in budgeting at a general level – that is through the key functions of budgeting (see essay I). This vantage point enabled comprehending how non-simultaneous institutionalisation of separate functions of budgeting play an important role in the abandonment of annual budgeting. However more in-depth investigation of the antecedents to non-mimetic institutionalisation – namely, formalisation of control systems (Adler & Borys, 1996) and controllers' actions in that process (essay II) – enables concluding that enabling formalisations and an active role of the controller network can actually promote the fragmentation of budgeting and institutionalisation of some functions of budgeting, while it enables controllers to stretch into various organisational dimensions of controlling work and utilise their occupational competences. Via a step further to look at micro level communication structures (Ranson *et al.* 1980, Monge & Eisenberg 1987) in budgeting it can be seen that the way the forecasting process takes shape laterally and gets various occupation-based groups committed to providing expertise based knowledge and generating shared understanding of the figures for forecasting can also be seen as promoting institutionalisation of new practices (see essay IV). This kind of arrangement increases general acceptance of accounting figures but also advances adoption of the larger system itself. The dissertation also shows that institutionalisation of new budgetary systems can lead to several configurations of budget design and use (see essay III). For example, clearer differentiation among the functions of budgeting and an abandonment of annual budgeting (i.e.,

employing of a non-budgeting approach) can be beneficial for some companies, helping them handle environmental contingencies better and more proactively through the varied use and continuous balancing of systems (Simons 1995, Mundy 2010), as this can improve the operational flexibility of what are usually fairly rigid control systems. Other companies, however, do not need this kind of tension and find it useful to complement the diagnostic process of annual budgeting with some other methods (as manifested in better budgeting).

Finally, this dissertation has adopted broader perspective on budgeting than is conventionally seen, and the results suggest that various budgetary tools and mechanisms can replace or complement each other as parts of an organisation's management control system (Malmi & Brown 2008). This kind of approach can provide valuable information for practitioners or those who are responsible for the education of controllers or management accountants, since it aids in understanding the basic elements of new budgetary control systems but also paints a picture of a changing organisational environment in which controllers may need new kinds of competencies or skills. This kind of interpretive research could be used to close the gap between academic thinking (theoretical knowledge) and practical problem-solving (craft knowledge) by communicating the knowledge to practitioners in ways that emphasise the practical implications of the findings (Scapens 2004). From an academic perspective, the dissertation opens interesting avenues for future research. Firstly, it helps researchers to see beyond the normative concepts of Beyond Budgeting and business-orientation. As Lukka and Granlund (2002) point out, difficulties can arise between different discussion circles in academia⁴. Therefore, in research on new developments in budgeting, it would be important to be able to extend the discussion across these circles and thereby more fully enhance the accumulation of accounting knowledge. Secondly, since the interview data from the research project appeared to emphasise the importance of new forecasting practices, the roles of various target-setting methods applied at companies – along with the links between them – might merit more research. The target-setting process appeared to be, to some extent, in the process of undergoing development at some companies. For example, various target-setting tools and their interdependence might generate various sorts of participation or game-playing within companies, and this warrants more research. In line with the ideas of Covalleski *et al.* (2003), empowerment or managers' increasing autonomy in determination of how to reach

⁴ For example, in their research on activity-based costing (ABC), they differentiate among consulting research, basic research, and critical research.

the targets can be seen as roughly analogous to employee participation in budgeting, which becomes an even more extensive issue if managers increasingly use decisions and actions of others (e.g., controllers) in their work to reach their targets (see essay II). Thirdly, because this dissertation demonstrates how greatly the new developments in budgeting can change the role of controller, it appears quite important (regardless of the variability in institutional arrangements of occupational education between countries) to investigate organisational professionalism further – i.e., the way in which changes in organisational practices and interaction with others (see Mouritsen 1996) may informally shape the professional role of the controller or management accountant in business organisations.

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