

From ‘Traditional’ Budgeting to ‘Better’ Budgeting: Navigating through ‘Stability’ and ‘Change’

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Abstract

Faced with criticisms on traditional budgeting, contemporary organisations have moved towards better budgeting and beyond budgeting practices. Drawing evidence from Citrus Lanka, a fast-moving consumer goods (FMCG) manufacturing firm in Sri Lanka, this paper explores amid limitations of traditional budgeting, how and why the firm moved to better budgeting rather than embracing beyond budgeting. It adopts the qualitative methodology and case study approach and mobilises the theoretical notions; ‘stability’ and ‘change’ under institutional theory. The field data illustrate how Citrus Lanka instigated evolutionary changes (towards better budgeting) rather than revolutionary changes (towards beyond budgeting), witnessing ‘stability’ of budgeting and ‘change’ towards better budgeting. This paper contributes by adding to the burgeoning budgetary control literature and extends the use of institutional theory in management accounting research by espousing how the notions of ‘stability’ and ‘change’ can co-exist. The better budgeting practice presented in this paper is a pragmatic approach. It offers practitioner pointers to managers grappling with limitations of traditional budgeting and practical difficulties of beyond budgeting on improving budgetary control through better budgeting approaches. Such an understanding is useful for managers beyond the case study firm to those across different industries and nations in adapting to the ever-changing business environment by drawing on management accounting insights.

Keywords: Traditional Budgeting; Better Budgeting; Beyond Budgeting; Case Study; Stability; Change

1. Introduction

Over the past decades, budgeting has continued to be the cornerstone of management control in organisations. With its command-and-control orientation, a traditional budgeting system typically entails setting standards, recording actual performance and comparing it with the plan, identifying and reporting variances on a routine and regular basis, and finally, regulating actual performance by way of remedial action (Emmanuel et al., 1990). In this manner, budgetary control directs managers' attention by making them aware of deviations from the plan, and once the 'alarm bell' has been rung, corrective measures are taken to keep things 'in control' (Berry et al., 1995). Despite its plausibility and widespread use, academics and practitioners have expressed dissatisfaction with traditional budgeting (Nguyen et al., 2018), claiming it to be of limited use in today's highly volatile, globalised business environment, amid stiff competition, advances in information technology, and shortened product life cycles (McNally, 2002). Literature also suggests that traditional budgeting, while being an annual encounter is fixed, rigid, and bureaucratic, inhibit firms from adapting to change, rarely strategy and competitor focused, time-consuming, and costly to practice (Hansen et al., 2003; Neely, Bourne, & Adams, 2003; Østergren & Stensaker, 2011). It is also criticised as "a thing of the past" (Gurton, 1999, p. 61) and an "unnecessary evil" (Wallander, 1999, p. 405).

Midst such criticisms, there are arguments for instigating improvements to traditional budgeting, by implementing improved budgeting and planning practices, known as 'better budgeting' (Neely et al., 2003) as well as for departing from traditional budgetary control in line with the 'beyond budgeting' slogan (Hope & Fraser, 2003). Better budgeting is an umbrella term that encompasses various improved budgeting approaches that attempt to address the drawbacks of traditional budgeting by enhancing the focus and accuracy of budget outputs (Neely et al., 2003). More importantly, better budgeting strives to balance control and flexibility (Lidia, 2014). From a theoretical stance, it includes improved practices, such as zero-based budgeting (ZBB); activity-based budgeting (ABB); and rolling budgets/forecasts. In contrast, the critical premise underpinning beyond budgeting is to abandon budgets, for they are inherently flawed (Hope & Fraser, 2003). It strives to manage organisational performance without traditional budgets and involves an adaptive management model (McNally, 2002) and decentralised decision-making process while promoting self-governing business units and placing high trust on employees. It is strategy-focused, hence is forward-thinking

and action-oriented towards a competitive future, with an emphasis on relative performance (of competitors). Notwithstanding such seemingly promising characteristics, the practical application of beyond budgeting is dubious considering the magnitude of organisational transformation it entails. Paradoxically, despite the theoretical merits of beyond budgeting, the majority of companies still use budgets, although in an improved form. Strikingly, budgetary control remains to be the most prevalent form of control in business entities (Ekholm & Wallin, 2000; Libby & Lindsay, 2010; McNally, 2002). Various commentators have elucidated its continuation (Bunce, Fraser, & Woodcock, 1995; Hansen et al., 2003; Otley, 1999; Scapens & Roberts, 1993), and has claimed that the implementation of better budgeting is simpler than moving to beyond budgeting (Rickards, 2006).

Within the backdrop of espoused criticisms of traditional budgeting and the upsurge interest coupled with practical challenges beyond budgeting, it is important to explore why and how real-life organisations choose between better budgeting and beyond budgeting in shaping their control landscape. This is also vital given that none of these approaches offer a complete solution and that management control, rather than being a static phenomenon, is a dynamic one, being subjected to varied contextual ramifications. Amid the availability of these various budgeting approaches, while organisations are at a dilemma of deciding which to adopt in a given business context, empirical management accounting research has so far remained silent in this regard. To redress this gap, this study draws field study evidence from Citrus Lanka¹, a fast-moving consumer goods (FMCG) manufacturing firm in Sri Lanka, which has been extensively practicing budgetary control over the years. This paper thus delves into the organisation's decision to initiate better budgeting practices, rather than embrace beyond budgeting, in response to limitations of traditional budgeting. It addresses the following research questions: 1) Why does a firm choose between better budgeting and beyond budgeting? 2) How does a firm design and implement its choice of budgeting control system?

The findings of this paper make several contributions. Firstly, it adds to the body of budgeting literature, particularly in the areas of traditional budgeting, better budgeting and beyond budgeting. It illuminates budgetary control practices in a FCMG firm, specifically its move from 'traditional' budgeting to 'better' budgeting, which improved forecast

¹ A pseudonym to maintain anonymity.

predictions, and aided managerial decision making. Secondly, it extends the use of institutional theory in management control research through the dual theoretical notions, ‘stability’ and ‘change’, while uncovering their coexistence in a budgeting context. Accordingly, although commonly viewed as opposing notions under institutional theory and developed as two streams of literature (institutional stability and institutional change), we provide empirical evidence to elucidate that ‘stability’ and ‘change’ are not mutually exclusive and not necessarily contradictory (Burns & Scapens, 2000). We demonstrate how they could co-exist (Siti-Nabiha & Scapens, 2005; Lukka, 2007) and be used in tandem, bridged evolutionarily to offer wider explanations about the dynamics of budgetary control practices in action. Thirdly, beyond the firm under inquiry, the paper is of significance to practitioners globally, for it offers insights on how a budgeting system could be improved through better budgeting practices. This is important as keeping up with the dynamism in the business environment is an enduring challenge for organisations globally. It further alerts managers on practical difficulties of implementing beyond budgeting. The findings of this study will also be useful to business consultants in terms of effective execution of budgeting and beyond budgeting practices as well as identification and rectification of any pitfalls in the process.

The rest of this paper is structured as follows. Section 2 reviews prior literature. Section 3 outlines the research context, methodology, and theoretical lens. Field study evidence is offered in section 4, while section 5 presents a discussion of findings, conclusion, and contribution to literature. Section 6 ends the paper outlining implications to practice.

2. A Review of Literature: Traditional Budgeting, Better Budgeting, and Beyond Budgeting

While a budget is a device for organisational planning and control (Rickards, 2006; Ekholm & Walin, 2000), amidst the changing competitive environment, budgets need to get translated to strategic goals and add value to organisations. Traditional budgeting is criticised on this front, as it soon becomes obsolete, is time-consuming, expensive, encourages gaming behaviour, and is not aligned to strategy (Hope & Fraser, 2003; Neely et al., 2003). Libby and Lindsay (2003) argue that not only does the use of a traditional fixed budget in the context of a dynamic business environment result in coordination problems and inefficiencies, it also decreases the organization’s flexibility and the ability to handle new

opportunities, threats, and changes in customer requirements. Nevertheless, there is also a body of research which suggests that these criticisms are overstated (Libby & Lindsay, 2010; Lidia, 2014) and those budgets are “still alive and kicking” (Ekholm & Walin, 2000).

Limitations of traditional budgeting have nevertheless led to the development of two distinctive approaches, better budgeting and beyond budgeting. Better budgeting, which remains loyal to the notion of budgets, instigates improvements to traditional budgeting to make it simplified and relevant. Techniques such as ABB, ZBB, and rolling budgets, are taken under the umbrella term, better budgeting (Neely et al., 2003). ZBB requires a budget to start at a zero level each year by taking a fresh look at all activities and programmes without expecting that current activities can proceed to the next period (Anthony et al., 2014). This would ensure that previous inefficiencies would not be transferred into the subsequent year through incremental budgeting (Adeleye, 2016; Siyanbola, 2013). Rolling budgets are short-term budgets (Sivabalan, 2011) which are continually updated plans, and as each month passes, the budget is extended by one month so that there is always a one-year rolling budget in place (Hayes, 2002). This results in a more accurate, forward-looking, and up-to-date budget (Ekholm & Wallin, 2000). It is claimed to be a dynamic strategic planning tool which is more responsive to the fast-changing business environment (Lorain, 2010). Hence, is popular among business managers (Hansen, 2011; Henttu-Aho, 2018). ABB is a better budgeting technique built upon the core concepts of activity-based costing (ABC) and activity-based management (ABM). It is linked to the organisation’s strategic objectives through the use of activity analysis techniques, identification of cost improvement opportunities and performance targets (Hansen, 2011). The use of the ABB approach makes resource consumption visible while identifying sources of imbalance or inefficiencies. This transparency of ABB promotes the allocation of resources to their best use in line with organisational priorities, decreases the scope for political gaming, enhances decision making and performance evaluation while improving operational flexibility (Ansari & Bell, 1997).

In contrast to better budgeting, beyond budgeting, developed by consultants Jeremy Hope and Robin Fraser, calls for a radical departure and involves the idea of completely abandoning budgets. With the rapid changes in the market environment, a traditional budget can quickly become obsolete and fail to absorb the rapid flow of information needed to maintain a competitive advantage (Neely et al., 2003; Heupel & Schmitz, 2015). Beyond budgeting strives to address the inherent problems of

traditional budgeting of being too static and unable to adapt to the external, competitive business environment (Neely et al., 2003) by promulgating the view of managing without budgeting. It is devised within the Beyond Budgeting Roundtable (BBRT), which comprises 12 principles related to leadership and performance management (Hope & Fraser, 2001; 2003). These principles revolve on measuring success against competitor performance, motivation through transferring responsibility within defined values, delegation, empowerment, customer-oriented team-working, cross-company interactions, open and transparent information systems, target setting based on external benchmarks, rewarding team success, strategy-focused, local access to resources, coordination and quick information for multi-level control. The essence of beyond budgeting movement thus involves managing organisational performance without conventional budgets, introducing self-governing business units, placing high trust on employees, decentralising decision-making, and replacing fixed performance contracts with relative performance contracts (Hansen et al., 2003).

In this manner, in the field of management control research, an interesting debate has evolved on traditional budgeting, better budgeting, and beyond budgeting. Empirical literature, while recognising the lapses of traditional budgeting, suggests that budgetary control still has benefits, and most companies strive to improve the traditional budgeting processes rather than abandon it (Ekholm & Wallin, 2000; Libby & Lindsay, 2010; Lidia, 2014). In line with these arguments, based on analytical modelling, past research concludes that elements of better budgeting, such as rolling forecasts, are more useful than traditional and are preferred to beyond budgeting (Hansen, 2011) which entails radical changes (Nguyen, 2018). Despite involving radical changes, in the areas of targets, motivation and rewards, planning and forecasting, measures and controls, resources, coordination, and culture, there is also a stream of studies which advocate abandoning budgeting in favour of beyond budgeting, claiming that it is more useful than traditional budgeting (Hope & Fraser, 2003; Neely et al., 2003). In the wake of such deliberations, one may argue that neither beyond budgeting nor better budgeting offers a single solution to the limitations of traditional budgeting (Rickards, 2006). From a practical standpoint, what's best essentially depends on the particular organisational and business context. Consequently, this paper using case study data from Citrus Lanka illuminates why does a firm chooses between better budgeting and beyond budgeting? And how does a firm design and implement its choice of a budgeting control system.

3. Research Context, Methodology, and Theoretical Lens

3.1 Research Context

Food and beverage are an important sector of an economy. In the context of Sri Lanka, it is significant as a source of foreign exchange earnings, employment, contribution to innovations in the food system, and upliftment to the rural economy. While there are numerous food and beverage manufacturing and marketing companies in the country with different levels of operations, the sector is dominated by a few large-scale players with established brand names. The case study firm Citrus Lanka is one such firm. Citrus Lanka is a FMCG manufacturing firm in Sri Lanka, operating under a globally recognised parent company, Citrus Global. Citrus Global, which possesses over 400 factories in nearly 200 countries around the world, is a renowned nutrition, health, and wellness company offering consumers with a wide range of food and beverage items (Citrus Lanka, 2019).

Over the years, Citrus Lanka has been using budgeting as its main management control tool, which has progressed through continuous improvements catering to the organisational requirements amid the highly competitive environment in which the firm operates. Citrus Lanka has established itself as a prominent food and beverage firm in the country for decades and currently provides direct employment to more than 1,200 people and positively influences the livelihoods of over 20,000 distributors, suppliers, farmers, and their families. Its parent company, Citrus Global, controls the companies under its purview worldwide (including Citrus Lanka) through zonal and regional offices.

3.2 Research Methodology

In investigating the budgeting system of Citrus Lanka, this study employs the qualitative methodology (Silverman, 2005) and single case study approach (Yin, 2009), for it was deemed appropriate given the nature of the research questions explored. Yin (2009) further notes that adopting a single case study strategy is appropriate when the case represents a unique case or an experience. Citrus Lanka reveals a unique case, being a FMCG manufacturing firm, which exhibits ‘stability’ as well as ‘change’ in its budgetary control system, as revealed through a preliminary investigation and its published records. Citrus Lanka was chosen as a suitable empirical setting to carry out this research based on the above reasonings.

Following the preliminary investigation and perusal of published records, data collection of the study was initiated with a pilot study done in March 2019 with two senior managers in the management accounting division, who had extensive experience in budget preparation in the company. Pilot study data was valuable in refining areas of focus and fine-tuning methodology. It also triggered the idea of leaning on the theoretical notions of ‘stability’ and ‘change.’ Building upon the pilot study findings, the main study was conducted from June to August 2019. Across the pilot and main study, face-to-face in-depth interviews were conducted with 12 key members involved in the practice of budgeting, spanning accounting, finance, control, treasury, marketing, IT, branding, learning and development, and operations. Table 1 presents the list of interviewees.

Table 1. Informants of the Study

<i>No.</i>	<i>Designation</i>	<i>Responsibilities/areas of work</i>	<i>Budget setting experience</i>
1	Senior Business Controller	Executing business functions, financial analysis, planning and designing overall business plan, identifying and researching new business opportunities and new markets, growth areas, trends, customers, partnerships and products.	12 years
2	Senior Manager - Treasury	Overseeing overall finances of the organisation, evaluating fiscal choices, monitoring expenses to meet financial needs.	11 years
3	Manager - Sales Analysis	Managing sales projects and engaging in statistical studies to ensure sales execution and achievement of growth objectives, managing the customer development calendar to meet internal / external deadlines.	9 years
4	Global IT/IS Manager	In charge of the ERP system and lends technological support in shaping the controls by providing and maintaining IT facilities across the group.	20 years

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5	Senior Category Manager	Analysing data and providing insights to determine industry and consumer trends, devising long term development strategies.	10 years
6	Brand Manager – Nutrition	Developing nutrition brand strategy for the company, carrying out research over industry benchmarks, driving the team towards the achievement of revenue, KPI targets and long-term profitability goals.	10 years
7	National Sales Operations Manager	Analysing products which continue to expand, improving productivity by evaluating and implementing sales technology.	22 years
8	Head of Learning and Development	Assisting the organisation's success by developing people, conducting training and development programme.	11 years
9	Manager - Management Accounting	Advising managers about the financial implications of business decisions, preparing management reports, budgets, and financial statements.	9 years
10	Manager - Nutrition Health & Wellness	Involving with variety of projects designed to improve health & wellness in corporate and community environments.	15 years
11	Business Manager	Developing strategic plans and value propositions aligned to customer requirements, take the lead in formulating, implementing, and driving the team to deliver lean initiatives and kaizen improvement.	8 years
12	Assistant Manager - Quality	Connecting with Value Stream Managers, Industrial Engineers and other relevant managers in product integration processes, taking initiatives to improve processes to maintain product quality standards, developing error-proof processes to ensure that a quality product is delivered on time.	12 years

These interviewees were selected from different functional areas and hierarchical levels based on their relevance to the study, the purpose of inquiry, and expected quality of the informants. While each interview ranged from 30 minutes to one-hour, additional information was obtained through several rounds of subsequent discussions and telephone conversations. Such in-depth interview data became useful in exploring meaning that people give to their experiences regarding budgetary control practices, enabling a holistic understanding of the ‘stability’ of budgeting and ‘change’ towards better budgeting in Citrus Lanka.

Interview data was complemented by a review of organisational and web-based documents, including functional budget reports, worksheets, variance analysis reports, key performance indicators (KPI), and annual reports, which helped in clarifying and reinforcing interview data. All interviews were voice recorded and transcribed. Then main themes were identified, such as limitations of traditional budgeting, better budgeting initiatives, and barriers in moving towards beyond budgeting, guided by the theoretical notions, ‘stability’ and ‘change.’

3.3 Theoretical Lens

This paper leans on the theoretical notions of ‘stability’ and ‘change’ under institutional theory. While the focus of early institutional theorists was on organisational stability, continuity, and conformance to external constitutes (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), across time, to keep up with the dynamism in the business environment, change towards adoption of improved organisational systems and practices, gained prominence. This interest also reached the arena of management accounting, conceptualised as management accounting change, for example, through the influential work of Burns and Scapens (2000) and, more recently ter Bogt and Scapens (2019). While there is a body of literature on stability and change, based on the traditional dualism view, these two notions are commonly seen as opposites and have progressed on different paths (Poole & Van de Ven, 1989; Lin et al., 2019). Consequently, the relationship between stability and change often reflects a paradox (Lewis, 2000). i.e., essential, yet at the onset incompatible and mutually exclusive. Ironically, to survive and prosper, organisations need to reconcile stability with change (Farjoun, 2017). Therefore, more recently, the interdependence between stability and change has gained prominence (Lin et al., 2019), and these two notions are deemed to co-exist

through the operationalisation of different management techniques, systems, and processes.

Contemporary organisations are faced with the dilemma of being innovative, flexible, and responsive to change while ensuring stability and consistency. Such a dual search for ‘stability’ and ‘change’ is thus very real to organisations. They are expected to encapsulate diverse issues on habit versus creativity, structure versus agency, and order versus freedom while being geared towards pragmatic solutions. Seeing in this manner, stability and change are two fundamental elements for the survival and development of an organisation (Poole & Van de Ven, 1989), and need to be used to enable each other (Farjoun, 2017).

Echoing similar sentiments, in the management accounting front, Burns and Scapens (2000) espouse that “stability and change are not mutually exclusive processes, they occur simultaneously”, and subsequent researchers have taken this path and pronounced their possible co-existence (Siti-Nabiha & Scapens, 2005; Lukka, 2007). Alongside such claims, these theoretical underpinnings are examined in the context of budgetary control in this paper, i.e., ‘stability’ of budgeting and ‘change’ towards better budgeting. Institutionalised practices could also act as a barrier to change, for change which is not aligned with the existing institutions may be resisted (Siti-Nabiha & Scapens, 2005; Lukka, 2007). With budgeting being deep-seated in the organisation, Citrus Lanka exhibits ‘stability’ of budgeting, progressing through evolutionary ‘changes’ (towards better budgeting) shaped by existing institutions rather than revolutionary changes (towards beyond budgeting).

4. Findings from the Field

Our in-depth investigation into the budgeting system of Citrus Lanka revealed that the firm currently practices better budgeting initiatives to address the problems of traditional budgeting. It was further revealed that while the existing organisational setup to an extent supports the beyond budgeting movement and some elements of beyond budgeting ideas are prevalent in the firm, barriers towards for beyond budgeting are more evident. Therefore, better budgeting practices are dominant within its control arena. This is elaborated in turn.

4.1. Limitations of Traditional Budgeting

Evidence from our field data show that budgeting has been ingrained as an integral feature of management control, as noted by the Senior Manager Treasury:

“From the past, everything we do as a company is mostly decided on budgets. It has been the biggest time-consuming task of the finance division and it’s a top-down exercise, where the top-line managers put together their ‘wish list’ of products they want to sell, how many new product lines to introduce, how much revenue to achieve etc.”

Furthermore, employee performance measurement is also dependent on budget target achievement. This was espoused by a Senior Business Controller:

“Not widely happening now, but before with this budget target achievement, managers were often under pressure to meet year-end targets and continuous monitoring was very limited.”

He continued:

“Maybe 10 - 12 years back, without any in-depth analysis we evaluated performance at the end of the budget period. We did a kind of surface analysis and added some % to do the next year forecast.”

As the words of these interviewees revealed, while the firm initially practiced incremental budgeting, the target setting process was not detailed and comprehensive. The attention of managers was merely on target achievement, and this became a restriction for further expansion. Senior Category Manager commented, “budgets are often a barrier to change because budgets are updated only annually”. Similarly, Brand Manager – Nutrition highlighted the importance of moving towards a flexible budget for new product development. He espoused:

“Over the years we used budgets as system of control. However, we know sometimes this control aspect has become a ceiling to progress and sometimes to introduce new brands with a forward-looking perspective. Budgets have to be adjusted according to business environmental changes.”

Along these lines, Manager – Management Accounting elaborated that the accelerated environmental uncertainty has led the firm to search for improved budgeting practices. He said, “The recent past was challenging; many things happened differently than expected. This uncertainty makes fixed budget useless, and budget assumptions are gone the day after we

made our budget”. In this manner, the fixed target setting process, rigid resource allocation, and year-end performance measurement system deployed in Citrus Lanka, which is accustomed to traditional budgeting appeared to be misaligned to the turbulent business environment. Such deliberations led to a shift towards better budgeting, as explained next.

4.2 Better Budgeting Initiatives

Various improved budgetary controls methods linked to rolling forecasts, such as the five-year plan, operational master plan (OMP) as well as ZBB have gained priority in Citrus Lanka. Manager in Management Accounting commented in this regard during interview encounters, stating:

“Improved budgeting practices are really important to the company because it always brings discipline in terms of cost-saving, to know where we are going, what we did, and helps us to map strategies for our future. Overall, its value-adding, and for me it’s crucial.”

Continuing from the five-year plan and OMP, the firm’s overall budget gets cascaded into a yearly forecast (known as the dynamic forecast). Targets are then set for business and product categories, while overheads and fixed costs are forecasted by cumulating divisional overhead budgets. Assistant Manager – Quality remarked:

“Our overall budgeting process has a broadline 5-year direction, it is then divided into annual buckets, like 2018, 2019, 2020, 2021 and 2022 likewise. Actually, this is not detailed, only a surface level forecast with percentages for growth, how much profitability to be achieved, which products needs to be grown etc. with forecasts for yearly budgeted volume, new product development and profitability levels.”

Every month all these budgets are revised based on actual data to maintain accuracy, and to ascertain whether the firm is in line with yearly targets, across time. A Business Manager explained:

“Every month after actual figures, our dynamic forecast is revised based on actual figures, even though we develop it annually. We have a target of top line growth of 5%, bottom line of 2% each month. Then every month we develop a portfolio plan to sell. May be this month we couldn’t hit the high level, so this month we will have a loss, then we decide in rest of the months how we can work to achieve year-end targets.”

Rolling forecasts feature flexibility and responsiveness to market changes. Manager - Health, Nutrition & Wellness noted further how this better budgeting initiative is practiced in the firm. She said, “initially we may plan for various things, but we may not achieve like that because customers are not buying, our prices are too high, competition etc., that is why we need to do a rolling budget every month”.

She further commented:

“If we don’t do rolling forecasts monthly, we cannot keep track on what is actually happening, because let’s assume for this year we have profit target of 20%, if we are not keeping in touch, and if ultimately, we give 19% from Citrus Lanka this is not acceptable. Once we promise it, we have to deliver it, we are a listed company, we have shareholders, and delivering our promises are important.”

Adding to this, ZBB which gives a fresh look at activities as well as programmes rather than merely basing targets on last year and carrying forward inefficiencies is an important better budgeting initiative visible in Citrus Lanka. The Business Manager elaborated:

“We commence with the sales plan, sales budget is important for us to know where we are heading, what each employee and business group needs to contribute to reach our final destination. We do our annual sales budget through ZBB, which includes products/categories to be sold, to whom, how much, areas to be focused etc. For that each product level manager does a sales analysis, market trend analysis and prepare their own budgets and send it to the next level. Based on that, group level sales budget is prepared.”

ZBB helps Citrus Lanka to get employees engaged in the budgeting process by making them understand their responsibilities and contributions towards the overall objective of the organisation. Manager – Management Accounting espoused:

“We are questioned on every element of the budget in detail. Under ZBB, when we justify transport cost, we analyse how many vehicles to use, the size of the lorries etc. At the beginning of the year, we set the budget in zero based method. By the middle of the year assumptions change, then each month we do rolling forecasts. Anyway, we are always encouraged to do ZBB.”

A Business Controller explained that whereas a ZBB approach is followed, certain things still rely on the last year’s actual figures. He noted:

“We are encouraged to do ZBB. But it’s difficult to forecast other income and expenses zero-based. Therefore, last year’s figures are considered when forecasting them.”

These interview excerpts highlight how Citrus Lanka has initiated better budgeting initiatives. Opportunities for beyond budgeting however do exist, amid barriers. This is focused upon next.

4.3 Opportunities and Challenges for Practicing Beyond Budgeting

In this section, we provide empirical evidence on the opportunities and challenges for practicing beyond budgeting in the case study firm. Keeping with the beyond budgeting principles of Hope and Fraser (2001), the organisational setup in Citrus Lanka to an extent supports the beyond budgeting movement and certain features of beyond budgeting is evident in the firm. In this regard, Manager - Sales Analysis noted how the performance management principle of making strategy a continuous and inclusive process takes effect in the firm via continuous monitoring. As he said:

“Every month end we do a Resource Planning Process (RPP), we have a budgetary review and revise things accordingly, to achieve targets correctly in the next month. For example, let’s assume we are planning to sell 100 tons of product Y, if it became 90, the entire cost structure will get changed next time.”

Several others reinforced the above. Citrus Lanka is highly IT-dependent and possesses an enterprise resource planning (ERP) solution and SAP system, which provides management with real-time comprehensive information for decision-making. This has enabled transparent and open information systems, a leadership principle of beyond budgeting. Global IT/IS Manager remarked:

“Each user is given a Citrus-specific email address and our internal communication is especially done through e-mails, and IT systems support the smooth flow of knowledge across the divisions.”

This was further verified by the Business Manager. As she commented:

“We have SAP system where every module is linked to one another. There is also a specialised person in every department to analyse the SAP figures and let the managers know what is currently happening. Most of our management reports can be generated and analysed through our IT systems, and the accuracy is very high.”

A leadership principle vital for beyond budgeting to take effect is to devolve strategy to front line teams and provide freedom to act, which is essentially employee empowerment. This is evident in Citrus Lanka, for it encourages its managers to be innovative rather than strictly manage based on numbers. A Senior Manager espoused:

“If certain strategies deviate from the expected and if we can prove that it was done in the best interest of the organisation given the external environmental conditions, then it’s well received by the top management.”

In this manner, while the organisational setting of Citrus Lanka and its outlook towards control exhibit some features attuned to the beyond budgeting approach, more evidently, barriers which hinder the firm from shifting to a fully-fledged beyond budgeting system appear to be deep-rooted. For example, during the financial crisis of 2007- 2008, Citrus Lanka followed a more adoptive approach allowing product category managers to make product-level strategic decisions. However, such flexibility and absence of a budget led to loss of business direction, lack of proper planning, controlling and coordinating of future goals. Ultimately, this drastic cultural change left employees with a feeling of disillusion. This suggests that a flexible structure became rather impractical for Citrus Lanka. Even though employees of Citrus Lanka enjoys a certain degree of flexibility and empowerment, all new initiatives need to be on par with global, zonal and regional guiding principles. As such, there is a significant level of control stemming from higher authorities.

Although information on competitors and market conditions are incorporated to some extent into the target setting process by the corporate office, the external orientation, which is a core element of beyond budgeting is notably absent in Citrus Lanka. As interviewees elaborated, there are limited efforts on setting targets in relation to main competitors, for such information is difficult to obtain in a reliable manner. This difficulty is further exaggerated as the firm has expanded to sub-areas such as dairy, beverages, culinary, which makes realistically identifying competitors in various segments and setting relative targets compared to competitors challenging. A National Sales Operation Manager noted:

“Relative target setting is complicated as we operate in many business lines. Each business line will have different competitors and we will have to consider each business line separately and get information.”

A further deliberation that emerged is as Citrus Lanka is a leader in the industry, competitor performance monitoring via relative targets have limited value. Manager - Sales Analysis explained:

“We have very few competitors, we are the leading player in the market. We believe on staying ahead of the competitors rather than following competitors. So, for us competition is not a serious issue in target setting.”

Adding to this, even though an element of empowerment desirable for beyond budgeting to take effect is evident in Citrus Lanka, due to doubts in the minds of employees, new ideas rarely reach the top management, instead get faded away at the middle management level. A Business Controller commented:

“Although there are no restrictions to bring up our suggestions to the top management, people are generally scared to do so. As I see, bureaucracy is unavoidable to some extent since we are part of a multinational corporation.”

Therefore, as a firm operating under a global parent company, it needs to align with the overall (global) corporate strategy, and obtain the required permissions, etc. Thus, the performance management principle of drawing resources when needed is not tenable, and it cannot be considered as fully independent. A Senior Business Controller explained:

“We need to align with one policy for the whole Citrus Global Group, we cannot have different policies, and then get resources as we want. It will arouse conflict as to where we should reach as an organization.”

This was further verified by the Brand Manager – Nutrition. As she added:

“I am from Citrus Nutrition; my performance will affect the total Citrus Lanka performance. We provide 13% contribution from my department and other departments also like that, we all work for one growth. Therefore, in a multinational company like Citrus it's bit difficult to totally remove the budget as we have to align to one strategy and common goals.”

Although building the commitment of teams to a common purpose, clear values, and shared rewards is a leadership principle of beyond budgeting, paradoxically the firm uses budgets to achieve such a common purpose. Further, while beyond budgeting requires rewarding team-based

competitive success, in the context of Citrus Lanka, setting team-based reward systems is challenging to practice. Head of Learning and Development commented:

“Measuring team effort is tricky. People do not always work for the best interest of the team; a person without team spirit can be unfairly treated positively, if team performance is rewarded.”

Through our interview encounters, it was accordingly evident that at one point, the company was contemplating whether to adopt beyond budgeting. However, progressive business expansion, incessant market dynamics, and difficulties in obtaining relative performance data have made shifting to beyond budgeting untenable. Seeing in this manner, while some elements of beyond budgeting exist in the control space of Citrus Lanka, an implementation of a beyond budgeting system is dubious as significant barriers appear to be more prevalent. Plausibly, as our field data reveal amid lapses of traditional budgetary control, the firm has instigated better budgeting initiatives rather than embracing beyond budgeting.

5. Discussion, Conclusion, and Contribution to Literature

Drawing empirical evidence from a FMCG manufacturing firm in Sri Lanka, Citrus Lanka, and leaning on the theoretical conceptions of ‘stability’ and ‘change,’ this paper responds to two questions: 1) Why does a firm choose between better budgeting and beyond budgeting? 2) How does a firm design and implement its choice of budgeting control system? Amid dynamism in the business environment and limitations of traditional budgeting, the case study firm has stepped forward with better budgeting while remaining within the core concept of budgeting. Budgeting being a frequently used managerial tool by organisations is claimed to be ‘evolving,’ rather ‘obsolete,’ for traditional budgets are being supplemented by new tools rather than being abandoned. Notwithstanding the presence of certain features of beyond budgeting, barriers inhibiting the move appear to be more evident in the firm. Libby and Lindsay (2010) note that budgets continue to be used for control purposes and are perceived as value-added, while Lidia (2014) states that even though problems do exist with budgets, companies are seeking to improve budgets rather than departing from it. Alongside these claims, Citrus Lanka uses budgetary control in an adaptive manner (better budgeting) through continuous improvements. Strikingly, its improved budgeting process is explicitly linked to strategy implementation and to the yearly

target achievement as well as the five-year direction. This is also on par with literature which suggest that improved budgeting techniques could be mapped with overall strategy implementation (Libby & Lindsay, 2007; 2010; Lidia, 2014).

Encountered with lapses of traditional budgeting, organisations also implement beyond budgeting ideas (Hope & Fraser, 2001; 2003). In Citrus Lanka, features such as making strategy a continuous and inclusive process, supporting transparent and open information systems, and devolving strategy to front line teams which are in line with the beyond slogan is witnessed. Ironically these are vital in a better budgeting setting too. More significantly, omissions regarding other key principles, such as lack of external orientation and relative target setting, hinder the firm's shift towards beyond budgeting. Besides being a part of a global firm, Citrus Lanka is required to align with the overall (global) corporate strategy of its parent company and obtain permissions to draw resources, thus a degree of bureaucracy is inevitable. Further, while employee empowerment does exist, fears in the minds of employees limit its use, and team-based rewards are not strongly present in the firm. Building commitment of teams to a common purpose, clear values, and shared rewards although is a beyond budgeting principle, paradoxically, this is integrated to the better budgeting system in Citrus Lanka. All this hamper beyond budgeting is taking a prominent foothold in the firm.

Our case study evidence also concurs with the words of Goode and Malik (2011), who claim that when budgets have been ingrained into the culture of a firm, managers will be reluctant to shift to a system without budgets. Citrus Lanka, possibly seeing the difficulties of managing without budgets, and the need to mitigate the problems of traditional budgeting, has instigated better budgeting initiatives. It also bears commonality with the work of Neely et al. (2003), which suggest that an option for firms which are receptive to a formal budgeting system yet are also faced with the dilemma of overcoming limitations of traditional methods is to adopt better budgeting. Accordingly, our findings align with past research that suggests that budgeting continues to occupy a centre stage in an organisation's control landscape (Bunce et al., 1995; Hansen et al., 2003). This apparent progression of budgeting seen in Citrus Lanka corresponds to Wildavsky (1986) that merits such as simplicity, easiness, and controllability lead to the continuity of budgeting and reinforce that the annual budget is really not dead (Ekholm & Wallin, 2000). Although beyond budgeting carries merits, it calls for a fundamental transformation to a management model, and many organisations are not ready for such a

radical shift. The sheer magnitude of change, decentralised structure, and level of empowerment envisaged by beyond budgeting can leave employees in disillusion, and obtaining external data on relative targets can be rather difficult for certain organisations, as revealed through the case study firm.

To recapitulate, Citrus Lanka depicts ‘stability’ of budgeting attuned to the existing institutions and ‘change’ through better budgeting reshaped and aligned to the long-term interest of the firm. It provides empirical evidence on the nested nature of management accounting ‘stability’ and ‘change’ and shows that, although seemingly contradictory, how stability and change could co-exist in an organisation, and be interwoven (Siti-Nabiha & Scapens, 2005; Lukka, 2007). It depicts that stability could facilitate change, for the stability of budgeting has facilitated change towards better budgeting. Most prior studies focus on traditional budgeting and beyond budgeting, and this paper provides unique insight regarding better budgeting practices with the aid of empirical evidence drawn from a FMCG manufacturing firm. Accordingly, it adds to the existing body of management accounting literature on better budgeting.

6. Implications to Practice

Founded upon a practical and real-world phenomenon, budgeting, this paper has important implications for practice. On one hand, over the years, budgets have become inescapable in the control space of organisations and have been important for organisational planning, control, performance evaluation, coordination, and communication. However, imposed ‘top-down’ nature and fixed targets of traditional budgeting have been widely criticised and are claimed to be unrealistic for their failure to reflect the changing business circumstances. On the other hand, beyond budgeting which advocates abandoning budgeting, although seemingly promising theoretically, and is attuned to dynamisms in the environment, it calls for a radical cultural transformation, high degree of decentralisation, and external/relative data. Hence at the level of practice it inherits many challenges.

Taking a middle ground as opposed to the above two extremes, this paper elucidates how amid limitations of traditional budgeting, how an organisational budgeting system could be improved through evolutionary changes towards better budgeting rather than making revolutionary changes towards beyond budgeting. This is a lesson for practicing

managers beyond the case study firm to those across different industries and nations, for adapting to an ever-changing business environment is an enduring challenge for organisations globally. The better budgeting practices presented in this paper is a pragmatic approach. It is insightful for practitioners grappling with limitations of traditional budgeting and practical difficulties of beyond budgeting to move towards enlightened and improved use of budgeting by embracing better budgeting.

While there is no one best fit, better budgeting practices deemed suitable would vary across organisations. It is hoped that the insights afforded through this paper would inspire future researchers to explore the practice of better budgeting in different organisational contexts. Besides, how the dual facets of ‘stability’ and ‘change’ get translated in terms of diverse management practices also deserves future inquiry.

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