



## ORIGINAL PAPER

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**The perception of budgeting in Czech firms — results of a survey**

**JEL Classification:** *M41; M19*

**Keywords:** *budgeting; planning; business environment; Czech firms*

**Abstract**

**Research background:** Budgeting was developed during the Great Depression as a managerial tool to help enterprises survive a critical period characterized by fluctuations in macroeconomic indicators. Now, after more than eighty years, budgeting is criticized for the same reason why it was created — for lack of adaptability to unexpected changes in the business environment. Based on these facts, the presented study focuses on the specifics of budgeting in the current business environment.

**Purpose of the article:** The aim of the work is to explore selected aspects of budgeting process in Czech firms, and to assess how the budgetary process is influenced by the progression of the business environment.

**Methods:** To achieve presented target, the authors designed the questionnaire survey submitted to employees of companies in the Czech Republic.

**Findings & Value added:** The first part of this paper displays the state of knowledge on budgeting, the following part presents results of the survey. The study identified several

trends, especially in the use of budgeting in Czech firms, characteristics of budgets in these subjects and evaluation of the sustainability of a company's environment.

## **Introduction**

The theoretical basis of budgeting was described in monographs by many well-known scholars (Drury, 2000; Garrison *et al.*, 2014; Weygandt *et al.*, 2009). According to Popesko and Papadaki (2016), budgeting is a typical activity of economic departments in various types of enterprises. Horngren *et al.* (2012) and Král (2010) define a traditional budget as a quantitative (financial) expression of a proposed plan by management for a specified period. It confirms a finding by Ostergren and Stensaker (2011), who claim that budgeting is often connected with the planning process. Drury (2015) considers budget as a clear indication of what is expected to be achieved during the budgeting period.

Budgeting was developed during the Great Depression to help enterprises survive a critical period characterized by a decrease in domestic consumption, deflation and profit margin reduction (Berland *et al.*, 2009). Only a few years later, these expectations became a reality, and budgeting became the most frequently used controlling systems (Fernandez & Rodriguez, 2011). The current situation can be described as paradoxical. A tool which was created because of the lack of ability to respond to turbulent economics, is particularly criticized for the lack of adaptability to unexpected changes in the business environment (Lorain *et al.*, 2015). However, this is not the only criticism regarding budgets. Hope and Fraser (2001, 2003) published two studies which show that traditional budgeting is unsuitable in today's dynamic age. Growing scepticism is also evident in the articles of other authors (Hansen *et al.*, 2003; Hope & Fraser, 2003; Neely *et al.*, 2003), who pointed that traditional budgets are focused on results, not on causes; support outdated stereotypes of thinking and organization; are disconnected from the enterprise strategy.

Wildavsky (1986) declared a radical opinion that budgeting is a system of the past. Similar thoughts are presented also in recent publications. According to Horváth and Sauer (2004), budgeting can no longer serve as a company's only management system in the current economics. A detailed analysis of budgeting weaknesses was presented by Neely, Sutcliffe and Heyns (2001), who compiled a list of the twelve most cited deficiencies of budgeting. Many authors have focused their studies on the relationship between budgeting and people in the enterprise. Libby and Lindsay (2010) criticized budgets for being time-consuming. Neely (2003) showed in his research that the budgeting process consumes more than 20% of the man-

ager's time fund. Jansen (2001) determined as the major problem of budgeting its impact on relations in the organization. He stated that budgets tend to cause managers to lie and cheat, and put colleague against colleague.

Despite considerable criticism, studies from various countries show a minority tend of companies to abandon traditional budgeting systems. For example, Ekholm and Wallin (2000) presented that 15% of the Finnish businesses plan to abandon traditional forms of budgeting. Libby and Lindsay (2010) indicated that 79% of the approached companies from Canada and USA use budgets for control purposes. About 94% of them reported that do not intend to abandon utilizing budgets for control in the future.

In recent years, we can observe increasing interest of academics to the area of budgeting specifics in the current business environment (Lorain *et al.*, 2015; Collier & Berry, 2002). In the Czech Republic many studies have been published with focus on public budgets (Mansfeldová 2005; Grebeníček *et al.*, 2013), or on characteristics of the enterprise budgets (Popesko *et al.*, 2015).

Based on these facts, the presented study focuses on the budgeting practice of Czech firms in the current business environment. The aim of the work is to explore selected aspects of budgeting process in Czech firms and to assess how is the budgetary process influenced by the progression of the business environment. An instrument for achieving this target was the questionnaire survey.

## **Research methodology**

The study focuses on several fields:

- Use of budgeting in Czech firms.
- Characteristics of budgets.
- Evaluation of the sustainability of a company's environment.
- The causes of differences between reality and plan (budget).
- Changes planned in the enterprise budget.

The article is based on a questionnaire survey submitted to a selected sample of Czech enterprises. Some questions in the survey were inspired by a similar study by Lorain *et al.* (2015) which opens the way to compare results of these two surveys in the future.

The required data was collected during December 2016 and January 2017 via a web-based questionnaire. The survey was anonymous and took about 15 minutes to be completed. Individuals who are employed in financial management (Chief Financial Officer, The Head of the Economic Department, Head of the Controlling Department, Financial Manager, etc.)

were addressed through the contact information from the Albertina database. Totally, about 450 companies were addressed and 50 of them completed the questionnaires. The structure of respondents is displayed below.

Table 1 illustrates that the largest sample of the firms is consisted from the sectors manufacturing (34%) and services (34 %). Engineering, construction, automotive and agricultural firms follow with a smaller number of respondents.

The companies were divided into two groups according to the number of employees (Table 2). The largest group of respondents is composed of small companies up to 50 employees (48%). In the second largest group, there are medium-size firms from 50 to 250 employees. Numerical dominance of these two groups of enterprises is connected with the fact that 99% of the Czech corporate sector is consisted of small and medium-size companies. Large companies (over 250 employees) occupy 16% of the research sample.

## **Results**

Based on the literature review and with regard to the criticism of traditional budgeting methods, the fundamental question is whether companies have confidence to the budgeting. This topic was investigated in the first question. Respondents were asked whether they compile a budget. It is displayed in Table 3.

As can be seen, budget is used by majority of the addressed companies. Viewed by the size of the companies, budget is predominantly applied in medium-size and large companies. In the group of 29 firms, which make budgets, there are only six respondents from small businesses.

For the companies who answered negatively to this question (21 firms), the survey ended and they did not continue to other questions. Totally, 29 companies remained to be a part of the survey.

The second part of the research provides details about general characteristics of budgets in Czech firms.

According to the respondents' answers, revenues and costs are the most common indicators in the budgets (31%) (Table 4). Incomes and expenses were chosen especially by small and medium-size companies. Many firms reported that they use a combination of indicators.

In following questions, the authors researched the time dimension of company's budgets. It included time base of reporting, time of compilation and defining the period when budgeting process begins. The results are given below (Table 5).

The annual base was included by Neely, Sutcliffe and Heyns (2001) into the group of twelve most-cited weaknesses of budgeting. They argued that annual system of budgeting is not adequate to the current dynamic business environment. Despite this fact, the annual base of budgeting is standard in Czech companies (86.2% of them compile budget in relation to the calendar year).

Libby and Lindsay (2010) criticized budgets for being-time consuming and Neely (2003) examined that the budgeting process consumes more than 20% of the manager's time fund. The results of the presented study coincide with these findings — most of respondents prepare the budget in one month or longer period (62%). More than 27% of approached firms compile budget in shorter period than one month, in 10% of companies this time is not observed.

Popesko and Papadaki (2016) claimed that preparation of budget usually takes the last four months of a year and begins in September. The presented study confirms this statement, because almost half of respondents (48.3%) start budgeting in the period September — October. It could be assumed that small businesses start budgeting in the period from November to December and large companies usually begin before September. But this assumption was not completely confirmed in the research. Only 50% of small companies begin budgeting in period November — December. Almost 43% of large firms start working on budgets before September, the same number of them start budgeting in period September — October. The medium-size companies make budgets commonly from September or October (50%).

The next part of the questionnaire was focused on evaluation of sustainability of business environment. The answers to the first question you can see in Table 6.

The proportion of chosen answers is relatively balanced, which shows no general trends in this field. In the Czech Republic, the business environment was considered as very stable, relatively stable, or stable by most of companies (82.8%). Only 17.2% of approached firms highlighted the company's environment as rather unstable. This answer was received especially from medium-size firms.

These results are adequate to the current situation when the Czech economy has steadily recorded GDP growth since 2014<sup>1</sup> and the unemployment

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<sup>1</sup> According to the OECD-data: <https://data.oecd.org/gdp/quarterly-gdp.htm#indicator-chart>.

rate is at the historical minimum<sup>2</sup>. The confidence of Czech companies in the economy is around 94%, just below the record level<sup>3</sup>.

Consequently, respondents answered questions aimed at updating of budgets (shown in Table 7).

Because surveyed firms mostly evaluated the business environment as a stable, it is not a surprising result that most of firms disagree with the statement: “When the budget is approved, immediately becomes obsolete”. About 31% of respondents rather agree and 6.9% of them completely agree with this opinion.

Stability of the business environment does not create a pressure on frequent adjustments of budget. So only half of respondents (51.7%) regularly make adjustments in the budget according to actual changes in the monitoring indicators. These interventions are commonly made in quarterly periods.

The following part of the questionnaire targeted on the causes of differences between reality and the budget (the results are available in Table 8).

In this question, respondents could choose more than one answer. As can be seen, Czech firms consider unexpected events and customer actions as the biggest problems of budgeting. The proportion of other answers is relatively balanced.

The last question researched what methods are planned to be implemented in approached companies.

The majority of addressed companies plan to implement process automation. On the other side, the rolling budgets are planned to implement only in 20.7% of respondents, despite the fact that this method repairs some declared errors of traditional budgeting techniques (Table 9).

## **Conclusions**

The literature review highlighted that traditional budgeting has been long-term criticized for low ability to respond to the changing environment. In connection with this assumption, the purpose of this work was to examine the specifics of budgeting in current environment. The selected sample consisted of Czech organizations from the profit sector. Overall, 50 respondents participated in the survey which was performed through a web-based questionnaire. Research questions were focused on use of budgets, budgets characteristics, stability of business environment, causes of differ-

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<sup>2</sup> According to the OECD-data: <https://data.oecd.org/unemp/unemployment-rate.htm>.

<sup>3</sup> According to the report of Czech Statistical Office: [https://www.czso.cz/csu/czso/business\\_cycle\\_surveys\\_ekon](https://www.czso.cz/csu/czso/business_cycle_surveys_ekon).

ences between reality and plan (budget) and changes planned to be implemented in the enterprise budget.

The study identified several trends. The budgeting is predominantly applied in medium-size and large companies. Small firms from the researched sample mostly (20.7% of them) do not use budget. It opens a question how they plan and control their activities. Despite the criticism of the annual basis mentioned in the literature research, budgets in Czech companies are mostly compiled in relation to the calendar year. The literature research also highlighted that budgets are time-consuming. Most of respondents prepare the budget in period longer than four weeks and start budgeting in period September — October.

The most common answer about company's environment was "relatively stable". A stability of the business environment does not create a pressure on frequent adjustments of budget, so only half of respondents (51.7%) regularly make adjustments in the budget during ongoing budgeting period. If these adjustments are made, the most common period is quarter according to the respondents. The last part of the questionnaire focused on the causes of differences between reality and plan, and planned changes in the budgetary process. Unexpected events and customer behaviour were considered as the most common reasons for the differences between reality and budget. Regarding changes in the budgetary process, the majority of the addressed companies plan to implement a process automation.

This study should be seen as the first outcome of still ongoing survey. The potential to the future can be seen especially in the application of mathematical-statistical methods that can facilitate understanding of the relationship between examined variables. As an example, we can mention the correlation between the stability of the business environment and the time of budgeting, the stability of the business environment and the tendency of companies to modify the budget during the year, or between size of firms and efficiency of budgeting.

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## Annex

**Table 1.** Structure of respondents by sectors.

<b>Sector</b>	<b>Frequency</b>	<b>Percentage</b>
Manufacturing	17	34%
Automotive	3	6%
Construction	4	8%
Engineering	4	8%
Agriculture	3	6%
Services	17	34%
Other	2	4%
<i>Number of respondents</i>	<i>50</i>	<i>100%</i>

**Table 2.** Structure of respondents by number of employees.

<b>Sector</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 50 employees	24	48%
50 – 100 employees	9	18%
100 – 250 employees	9	18%
More than 250 employees	8	16%
<i>Number of respondents</i>	<i>50</i>	<i>100%</i>

**Table 3.** Use of budgets.

<b>Does your company compile a budget?</b>	<b>Number</b>	<b>Percentage</b>
Yes	29	58%
No	21	42%

**Table 4.** Characteristics of budgets – part 1.

<b>Which indicators are monitored in your company's budget?</b>	<b>Number</b>	<b>Percentage</b>
Revenues – costs	9	31.03%
Incomes – expenses	4	13.79%
Assets – liabilities	1	3.45%
All these indicators	9	31.03%
Revenues – costs and incomes – expenses	5	17.24%
Revenues – costs and assets – liabilities	1	3.45%

**Table 5.** Characteristics of budgets – part 2

<b>Evaluate whether you agree with the following statement: The company's budget is compiled in relation to the calendar year.</b>	<b>Number</b>	<b>Percentage</b>
Yes	25	86.2%
No	4	13.8%

  

<b>Which month do you start compiling of your budget?</b>	<b>Number</b>	<b>Percentage</b>
Before September	6	20.7%
September – October	14	48.3%
November – December	9	31%

  

<b>How long is the budget (or system of budgets) prepared in your company (number of weeks)?</b>	<b>Number</b>	<b>Percentage</b>
Less than 1 week	2	6.9%
2 – 3 weeks	6	20.7%
4 – 5 weeks	6	20.7%
5 – 8 weeks	7	24.1%
More than 8 weeks	5	17.2%
Time is not observed in the enterprise.	3	10.3%

**Table 6.** Evaluation of company's environment

<b>How do you evaluate sustainability of your company's environment?</b>	<b>Number</b>	<b>Percentage</b>
Very stable	7	24.1%
Relatively stable	9	31%
Stable	8	27.6%
Relatively unstable	5	17.2%
Very unstable	0	0%

**Table 7.** Updating of budgets

<b>Evaluate whether you agree with the following statement: When the budget is approved, immediately becomes obsolete.</b>	<b>Number</b>	<b>Percentage</b>
Strongly disagree	2	6.9%
Disagree	8	27.6%
Rather disagree	8	27.6%
Rather agree	9	31%
Completely agree	2	6.9%

  

<b>Do you adjust the budget during the year in reply to development of monitoring variables?</b>	<b>Number</b>	<b>Percentage</b>
Yes	14	48.3%
No	15	51.7%

  

<b>If yes, in what periods is the budget adjusted?</b>	<b>Number</b>	<b>Percentage</b>
Ad hoc – according to situation	2	14.29%
Monthly	1	7.14%
Quarterly	5	35.71%
Biannually	1	7.14%
Every 3 months	1	7.14%
May – October	1	7.14%
In case of significant changes	1	7.14%
Without answer	2	14.29%

**Table 8.** Causes of differences between reality and budget.

<b>Define the factors causing variances between reality and budget.</b>	<b>Number</b>	<b>Percentage</b>
Unexpected events	23	79.3%
Customer actions	22	75.9%
Poor prediction reliability	12	41.4%
Competitors action	8	27.6%
Government actions	3	10.3%
Lack of environment information	6	20.7%
Weakness of action plans	3	10.3%
Employee's actions	4	13.8%
Supplier actions	11	37.9%
Technical problems	10	34.5%

**Table 9.** New budgeting methods to implement

<b>What methods do you intend to implement to your budgetary process?</b>	<b>Number</b>	<b>Percentage</b>
Process automation	23	79.3%
Use of an ERP system	22	75.9%
Use of KP	12	41.4%
Relative objectives	8	27.6%
Process reengineering	3	10.3%
Use of rolling budgets	6	20.7%
Use of trend reports	3	10.3%