Assessment and Recommendations for Company X's Budgeting Process: Evaluating Current Practices and Identifying Further Improvements

Ranar Klopp

Haaga-Helia University of Applied Sciences
Bachelor of Business Administration
Thesis
2023

Abstract

Author(s) Ranar Klopp	
Degree Bachelor of Business Administration	
Report/Thesis Title Assessment and Recommendations for Company X's Budgeting Process: Evaluating Current Practices and Identifying Further Improvements	
Number of pages and appendix pages 46 + 2	

This bachelor's thesis focuses on enhancing budgeting processes within Company X, an SME specializing in healthcare software solutions for B2B clients globally. The primary objective is to offer practical recommendations for improving the Company X's budgeting process.

The study comprises two main sections: an exploration of the current budgeting processes within Company X, highlighting their strengths and weaknesses, and an examination of the company's commitment to continuous improvement, including insights into future implementations. The methodology adopted for this research involved a combination of qualitative interviews with key decision-makers and stakeholders, as well as thematic and empirical data analysis to identify areas of potential improvement.

The findings revealed several areas within Company X's budgeting processes that could benefit from improvement. These recommendations, encompass a range of budgeting methodologies, tools, and mindsets. The suggested improvements are not prioritized, as each holds potential to enhance the budgeting process. Some recommendations can be readily implemented, providing quicker results, while others may require more noteworthy changes to the company's overall strategy, requiring time and additional resources.

This thesis also has broader relevance beyond Company X, offering valuable insights for other SMEs in the healthcare software industry. Decision-makers in similar organizations can draw upon this research to identify avenues for improving their budgeting processes, provided they have the requised resources and commitment.

The study demonstrates a commitment to personal and professional growth, as it magnifies the understanding of budgeting processes and equips the author to make meaningful contributions to Company X's budgeting process and the broader software sector. Just as the financial world continually evolves, so too does the author's path toward ongoing learning and success.

Key words
Budgeting process, budgetary improvements, managerial accounting, financial management

Table of contents

1 Introduction ... 1
1.1 Research Question ... 1
1.2 Demarcation Criteria ... 2
1.3 Benefits ... 3
1.4 Key Concepts ... 5
2 The Budget & the Process of Budgeting ... 6
2.1 Budget and Control ... 6
2.2 Challenges in Budgeting and Control ... 7
2.3 Risks in Budgeting and Control ... 9
2.4 The Process of Budgeting ... 10
2.5 Frequent Budgeting Methods ... 13
2.5.1 Top-Down Budgeting Methodology ... 13
2.5.2 Bottom-up Budgeting Methodology ... 14
2.5.3 Participative Budgeting Methodology ... 16
2.5.4 Zero-Based Budgeting Methodology ... 17
2.5.5 Activity-Based Budgeting Methodology in a Light of Activity-Based Costing & Activity-Based Management ... 18
2.5.6 Performance-Based Budgeting Methodology ... 19
3 Research Method ... 21
4 Budgeting Process Assessment and Recommendations for Company X ... 23
4.1 Evaluating the Budgeting Process ... 24
4.1.1 Budgeting Process Key Stages and Components ... 24
4.1.2 Effectiveness of Budget Management ... 26
4.1.3 Challenges and Bottlenecks in the Budget Process ... 28
4.2 Management-Driven Innovations in Company X Budgeting Process ... 29
4.2.1 Improving the Budgeting Process for Efficiency ... 30
4.2.2 Enhancing Budgeting Process with Tech & Methodologies ... 31
4.3 Author’s Recommendations ... 32
4.3.1 Incorporation of Other Methodologies ... 33
4.3.2 The Balanced Scorecard ... 34
4.3.3 Budgeting Tool ... 35
4.3.4 Zero-Based Budgeting as a Strategy Day ... 37
4.3.5 Active Monitoring of Global Markets ... 37
5 Discussion ... 39
5.1 Key Findings ... 39

5.2 Reliability, Validity, and Relevance 39
5.3 Reflection on Learning 41
5.4 Further Development Ideas 42
References 44
Appendices 47
Appendix 1. Interview Questions 47

List of Abbreviations

ABB – Activity-Based Budgeting

AI - Artificial Intelligence

B2B – Business-to-Business

BSC – Balanced Scorecard

BoD – Board of Directors

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CSR – corporate social responsibility

ELT – Executive Leadership Team

IQ – Investigative Question

KPI – Key Performance Indicator

PBB – Performance-Based Budgeting

RQ – Research Question

SME – Small and Medium-sized Enterprise

SR – Strategy Refresh

VP – Vice President

ZBB – Zero-Based Budgeting

1 Introduction

This academic paper is a research-oriented bachelor's thesis prepared as part of the International Business degree program, with a focus on Finance and Accounting at Haaga-Helia University of Applied Sciences. This preliminary chapter provides a broad overview of this thesis. Additionally, it explains the main objective of this research paper. And provides relevant contextual data related to the selected topic. Further, this chapter defines clear boundaries to ensure focused academic inquiry. Ultimately, the author of this thesis offers actionable recommendations to Company X.

The core of this thesis is an in-depth study of Company X's budgeting process. The Company X budgeting process is then analyzed and compared with literature reviews. This comparison results in realistic recommendations which aim to improve the budgeting mechanisms. The motivation behind this research is the fast-paced global business landscape (Hariharan 2020). This landscape mandates constant reassessment and refinement (Merchant & Van der Stede 2012). Budgeting process is not an exception (Otley 2016; Bogsnes 2016).

Although this thesis is specific in its investigation, it seeks to provide broader value to other small and medium-sized enterprises (SMEs). It is achieved through analysis of existing budgeting process, what identifies potential areas in budgeting process for improvement. Further, it provides recommendations based on established theoretical foundations. With this, the author of this academic paper hopes to contribute to a wider discussion about effective budgeting processes in the SME context.

1.1 Research Question

The principal goal of this thesis is to find ways to increase efficiency of budgeting process for Company X. Futher, this thesis holds universal appeal as it is crafted to guide decision-makers across various companies. Kaplan & Norton (2010) advocate for the necessity of adapting the budgeting process in tandem with a company's evolution and strategies. Similarly, Jensen (2001) addresses issues within the budgeting process, suggesting the need for adjustments as businesses grow and strategies evolve.

The international aspect, a prerequisite of the degree program, is addressed. It is achieved through qualitative interviews with the top management of Company X. Further, Company X is an international company which has a presence across several continents.

The research question (RQ) of this thesis is: **How to improve the budgeting process of Company X**? For that, qualitative interviews have been carried out with the decision makers of the Company X. The current budgeting process of the Company X is first investigated (sub-chapter 4.1

section 1). The study continues with the appraisal of pros and cons in the budgeting process (sub-chapter 4.1 respectively in section 2 and 3). Further, the study uncovers the potential improvements thoughts by the management (sub-chapter 4.2). And, the chapter ends with the author of this thesis recommendations to futher improve the budgeting process (sub-chapter 4.3).

The research is divided into five investigative questions (IQs) which are stated below (table 1). Each IQ resault is a combination of several interview questions answered by the top management of Company X which are stated in appendix 1.

Table 1: Overlay matrix

Investigative questions	Theoretical Framework	Research Methods	Outcomes
IQ 1. What are the key stages and compo-nents of the current budgeting process?	Budget Budgeting process Budgeting practicies	Qualitative Interviews	Sub-section 4.1.1
IQ 2. How do these key stages and compo-nents contribute to the overall effectiveness of budget management?	Budgeting process Budgeting practicies Budgeting assessment	Qualitative Interviews	Sub-section 4.1.2
IQ 3. What are the most common chal-lenges and bottlenecks encountered during the budgeting process?	Budgeting practicies Budgeting assessment	Qualitative Interviews	Sub-section 4.1.3
IQ 4. How will modifica-tions in the budgeting process address previ-ously identified chal-lenges and bottlenecks to enhance budgeting process efficiency?	Budgeting practicies Budgeting assessment Budgeting improvements (company) Recommendations (author of this thesis)	Qualitative Interviews Participating in a business meeting Literature review Empirical analysis	Sub-section 4.2.1 & Sub-section 4.3
IQ 5. How can new technologies, tools, and methodologies (such as AI, data analytics, and zero-based budgeting) be integrated into the budgeting process to optimize resource allo-cation and enhance de-cision-making?	Budgeting assessment Potential improvements (company) Recommendations (author of this thesis)	Qualitative Interviews Participating in a business meeting Literature review Empirical analysis	Sub-section 4.2.2 & Sub-section 4.3

1.2 Demarcation Criteria

The focal point of this thesis is the budgeting process within Company X, a SME that engages exclusively in Business-to-Business (B2B) transactions within the software industry. The Company

X is a private limited company with more than 30 shareholders, and over 100 employees. The Company X has been operating on the market over two decades and expanded globally being present on three continents and more than in half a dozen countries. While rooted in Finnish origins, Company X's strategic headquarters is registered in Switzerland.

The collection of primary and secondary data is done through qualitative interviews with various managers positioned within Company X. The roles of these managers are Chief Executive Officer (CEO), Chief Financial Officer (CFO), Vice President (VP) of Finance and Business Controller. These qualitative interviews are carefully designed which contains a series of open-ended questions calculated to generate extensive responses. The qualitative data obtained will subsequently undergo qualitative thematic analysis, providing a layered understanding of the internal budgeting dynamics. Given the confidentiality considerations, the identities of these managers will not be disclosed, only their roles in the company

The research involved firsthand participation in Company X’s budgeting process. This approach aims to provide an experiential understanding of the subject matter. However, the scope of participation is limited to observational activities and will not influence Company X’s budgeting decisions.

The literature review is not a mere comparison of exisiting research but serves as a benchmark against which the research empirical findings can be measured. Special attention will be paid to literature focusing on the peculiarities of budgeting in SMEs and B2B software companies. This allowes multi-dimensional understanding of the research context.

The conventional empirical analysis is often associated with quantitative measures. The present academic paper adopts a qualitative empirical approach for the author of this thesis to prove its recommendations to improve the budgeting process of Company X. The qualitative empirical analysis, in this case, is configured to augment the rich subjective data gathered from interviews, literatures and participatory observations. Drawing upon a rich corpus of primary and secondary data, the qualitative empirical analysis funtions to provide nuanced insights into real-world practices, beyond the theories reviewed in literature.

1.3 Benefits

The budgeting process grants several significant benefits to various stakeholders involved in the Company X operations. Firstly, the Company X internal operations and staff benefit from the budgeting process by gaining a clear roadmap for financial planning and resource allocation. Budgets allow to set targets, monitor performance, and make informed decisions based on allocated funds, enhancing operational efficiency and accountability (Merchant & Van der Stede 2012; Hansen, Mowen & Heitger 2021).

For B2B clients, the budgeting process indirectly benefits them through improved service quality and reliability. As budgeting helps optimize internal processes, it enables the company to maintain competitive pricing, deliver products/services on time, and ensure better customer support, ultimately enhancing the overall customer experience.

Other stakeholders, such as shareholders and investors, benefit from the budgeting process as it promotes transparency and generates confidence in the Company X financial management. A well-structured budget provides better insights into the company financial health and future prospects, influencing stakeholders' investment decisions positively (Neely, Adams & Kennerley 2002; Brigham & Houston 2007).

Additionally, the broader community and society benefit from responsible budgeting practices. By incorporating Corporate Social Responsibility (CSR) into the budgeting process, the company can prioritize sustainable initiatives, such as reducing emissions and adopting eco-friendly practices, contributing to environmental protection and social welfare (Schaltegger & Burritt 2017; Epstein & Buhovac 2014).

Moreover, the budgeting process itself offers valuable benefits to the project team members. Engaging in budgeting activities fosters a deeper understanding of financial principles and cultivates financial literacy among team members. Through collaboration and communication during the budgeting process, team members develop strong interpersonal and teamwork skills. (West 2012.) Furthermore, team members have the opportunity to build meaningful business contacts and networks during the budgeting process. Interacting with different stakeholders and departments fosters cross-functional collaboration and expands professional connections, which can prove beneficial for future career opportunities (Dyer, Dyer & Dyer 2013).

Lastly, in short, active participation in the budgeting process provides multifaceted benefits to the author of this thesis. Through practical knowledge acquisition, skill development, and enhanced financial literacy, the author of this thesis gains valuable competencies applicable to various professional contexts. Additionally, the author of this thesis through the budgeting process fosters interpersonal skills, understanding of organizational operations, and networking opportunities.

1.4 Key Concepts

Budget is a detailed financial plan that outlines expected revenues, expenses, and financial goals over a specific period, facilitating resource allocation and performance evaluation (Horngren, Sundem, Burgstahler & Schatzberg 2022).

Budgeting process refers to the systematic methodology that organizations employ to create their budgets (Scarborough 2012). The process begins with setting strategic objectives, then proceeds to detailed financial planning, and concludes with the monitoring and adjustments of the budget according to actual performance (Wildavsky & Caiden 2001).

Budgetary control is a management process where budgets serve as a critical means for planning and controlling all business operations (Drury 2018). It involves comparing actual performance with the budgeted figures to identify variances. Then analyze their causes and subsequently take corrective actions to align the operations with the established goals. (Collier 2015.)

Financial planning is a comprehensive approach that is adopted by individuals or organizations to set financial targets for the short-term and long-term, and to lay out methods to achieve these targets (Zutter & Smart 2019). It involves predicting future revenues and expenditures, making critical investment decisions, and assuring the ongoing financial stability of the individual or organization (Ross, Westerfield & Jordan 2022).

Responsibility accounting refers to an underlying management control system in which various sections, divisions, or departments (also referred to as responsibility centers) of an organization are held accountable for their respective financial performance (Hansen & al. 2021). This system is designed to aid managers in tracking, controlling, and improving operations by attributing financial outcomes to specific segments, thereby enabling localized and more precise decision-making (Drury 2018).

Variance analysis compares actual results to budgeted (forecasted) figures, to help to identify deviations and their underlying causes (Shim, Siegel & Shim 2012).

2 The Budget & the Process of Budgeting

In this chapter, the theory of budget will be covered in detail, including explicit explanation of the importance of budgets. Further, the chapter continues with looking into main challenges in budget and control. As nothing comes without a risk, this chapter continues to bring to the sunlight the most common risks of the budget and control. The continuing sub-chapter dives into the process of budgeting, showing, and explaining the steps of the process of budgeting. The latter segment of this chapter offers insights into select budgeting methodologies. It is important to note that while an exhaustive list of methodologies is beyond the scope of this chapter, emphasis is placed on the most prevalent budgeting strategies. Additionally, the author presents an overview list of methodologies that are deemed fit for the management of Company X based on their expertise, monitoring the process of budgeting in the Company X and research done.

2.1 Budget and Control

A budget is a carefully crafted financial plan that provides a detailed breakdown of an organization anticipated revenues and expenditures over a specified period (Ross & al. 2022; Shim & al. 2012). However, in the realms of accounting and finance, budget is not merely a collection of anticipated revenues and expenditures. At its core, a budget represents fiscal strategy of an organization, offering both a reflection on past performance and a vision for the future. (Horngren & al. 2022; Zutter & Smart 2019.) Simply put, beyond the definition of a budget, the nature of a budget is intertwined with the broader topics of strategy, planning and management vision.

Drury (2018) emphasizes aptly the significance of budgets in the broader scale of organizational management. Within the strategic planning, budgeting, and control process, illustrated with Figure 1 below, a budget serves as a roadmap that guides an organization budgeting decisions, aiding in the alignment of monetary objectives with overall strategic goals. Such alignment ensures that an organization is not only planning for its immediate forecasts but is also preparing to navigate potential long-term challenges and opportunities. (Drury 2018; Libby & Lindsay 2010.) Within the framework presented by Drury (2018), the seamless integration of strategic planning with budgeting becomes evident. Budgeting is not an lonely activity restricted to the finance department. It is a whole organizational wide effort, where feedbacks, stakeholders, and cross-departmental collaborations enrich the budgeting process, lending it depth and ensuring its alignment with broader organizational goals (Drury 2018; Noreen, Brewer & Garrison 2011).

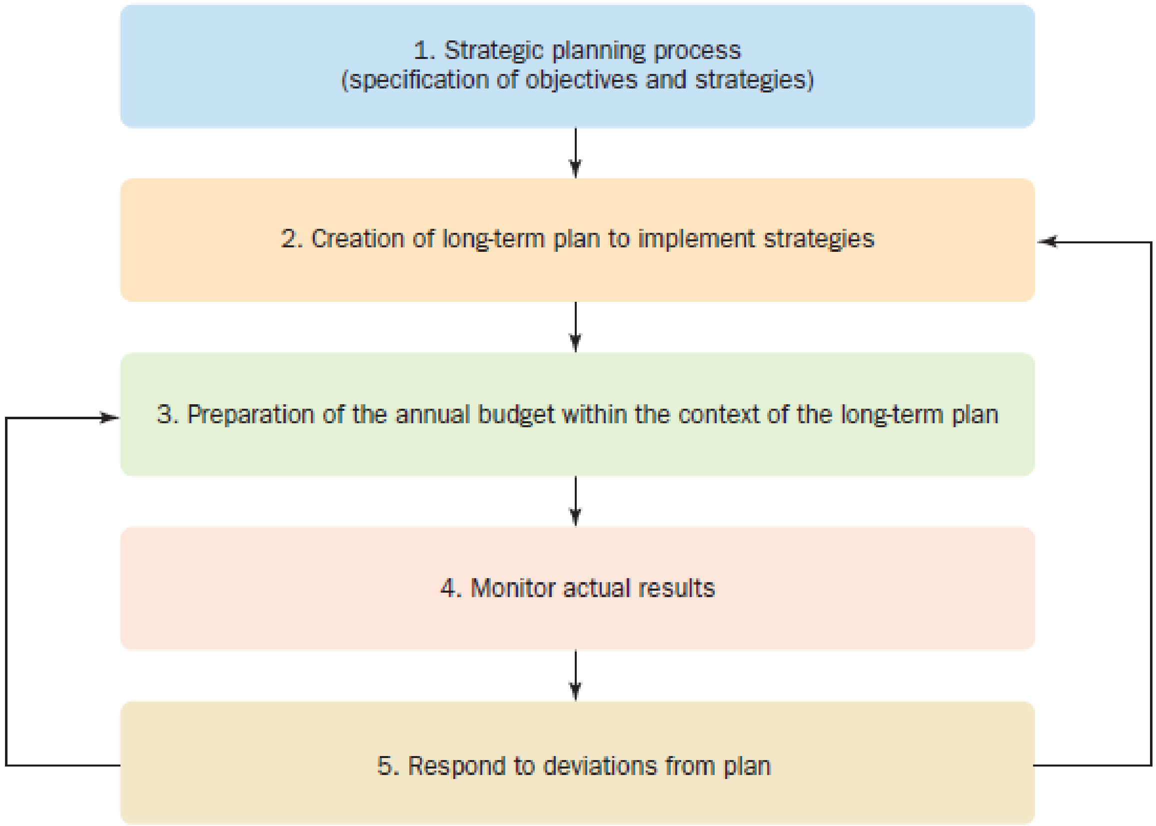

Figure 1. Strategic planning, budgeting, and control process (Drury 2018)

Historical financial data stands as a central pillar in the budgetary process. By analyzing past financial behaviors, trends, and outcomes, organizations can collect valuable insights into their fiscal health and path. (Zutter & Smart 2019; Noreen & al. 2011.) These retrospective evaluations set the foundation upon which future forecasts are built. However, while history serves as a guide, budgeting by nature is forward-looking. It demands a sharp understanding of evolving market conditions, potential regulatory changes, and emerging economic challenges, ensuring that the budget remains relevant and adaptive (Ross & al. 2022; Hansen & al. 2021). But the act of budgeting goes beyond comparing historical data with future forecasts. It requires a diligent and often iterative process of control and validation. Forecasts, especially those related to revenue, need to match in reality, avoiding the pitfalls of unnecessary optimism or pessimism. Similarly, anticipated expenses need to factor in both, known expenses and provisions, for unforeseen expenses. (Drury 2018; Libby & Lindsay 2010.)

2.2 Challenges in Budgeting and Control

The formulation, implementation, and monitor of budgets represent complex tasks that combine both art and science. It demands an optimal unify of factual insights and nuanced judgment.

Budgeting, as an essential element of an organization strategic planning and control, has a unique complexity, punctuated by a bulk of challenges that demonstrate its multifaceted nature. (Drury 2018; Shim & al. 2012.)

One of the most common challenge in budgeting is navigating the unpredictability of external factors. Economic volatility, changes in consumer behaviors, fluctuating market conditions, geopolitical instabilities, and global events (such as pandemics, eruption of volcanoes) can dramatically distort the best-laid budgetary plans. In a rapidly changing global landscape, these external variables can quickly turn from external concerns to primary budgetary disruptors. (Horngren & al. 2022; Ross & al. 2022.) Moreover, technological disruptions, evolutions in industry standards, or regulatory changes can further combine the uncertainty, rendering previous budgetary assumptions obsolete (Libby & Lindsay 2010; Zutter & Smart 2019).

Internally in an organization, the budgeting process can run into conflicts arising from different departmental agendas. Each department or segment of an organization might stand its own priorities, leading to potential misalignments with the broader strategic objectives. Moreover, limited resources can create an environment where collaboration takes a backseat, hindering the synthesis of a common budgetary vision. (Hansen & al. 2021; Noreen & al. 2011.) Furthermore, organizational culture plays a pivotal role. Companies that promote a culture of transparency and inclusivity might find the budgeting process smoother as compared to those where budgetary is kept in secrecy and limited to a select few individuals. The flow of crucial data, inter-departmental communication, and trust levels within the hierarchy can significantly influence the effectiveness and efficiency of the budgeting process. (Drury 2018; Shim & al. 2012.)

There is often a risk of bias to lean heavily on historical data while formulating budgets. Though methodologically sound, can sometimes tie up an organization to past performance metrics at the cost of future innovation. While historical data provides a valuable foundation, an excessive emphasis on it might render organizations less agile in responding to emerging challenges and opportunities. Therefore, innovations in budgetary techniques, such as flexible budgeting or zero-based budgeting (ZBB), might be viewed with skepticism in entities deeply wedded to conventional methods. (Drury 2018; Horngren & al. 2022; Noreen & al. 2011.)

After the formulation and approval of budgets, the phase of budget control ensues. This involves a continuous comparison of actual performance against budgeted metrics. Therein lies the challenge of identifying the reasons for variances, be they favorable or adverse, which means simple variance in numbers can have multifaceted. (Libby & Lindsay 2010; Ross & al. 2022.) Analyzing these variances requires a granular understanding of both the internal operations and external market dynamics. Moreover, based on these differences, ensuring effective implementation of remedial measures becomes a challenge in itself. (Van der Stede 2011; Zutter & Smart 2019.)

A solid budgeting process is underpinned by meticulous documentation. It is not just about the final budget, but the numerous assumptions, discussions and debates that paved the way. Comprehensive documentation increases transparency, provides clarity on decision-making reasoning, and serves as a beacon for future budgetary exercises. However, ensuring consistent and detailed documentation, especially in large organizations, can be a frightening task. (Drury 2018; Hansen & al. 2021; Merchant & Van der Stede 2012.)

2.3 Risks in Budgeting and Control

The very act of trying to see into the future and basing decisions on this speculative exercise introduces great number of risks (Drury 2018; Horngren & al. 2022). Foremost among the risks is the characteristic uncertainty of forecasting. While it might seem a purely quantitative exercise, forecasting is filled with variables that range from economic stream, geopolitical events, technological advancements, to unpredictable consumer behaviours. Organizations run the risk of making inaccurate forecasts, with even the mild differences having significant implications. (Libby & Lindsay 2010; Zutter & Smart 2019.) This is particularly true in sectors undergoing rapid change or disruption, where historical trends may not be reflective of future patterns. Over-reliance on past data may blind organizations to development trends, leading to significant budgetary misalignments. (Hansen & al. 2021; Ross & al. 2022.)

A delicate balance must be struck between adhering to a budget and maintaining the flexibility to adapt to changes. Organizations that dogmatically stick to their budgets without allowing for adjustments risk becoming unresponsive to market shifts, while those too flexible might find their strategic direction becoming blurred. (Van der Stede 2011). Striking this balance becomes even more challenging in volatile markets, where rapid response to changes is vital. Organizations risk being caught in a conflict where the need for stability, provided by strict budgeting, clashes with the need for flexibility. (Zutter & Smart 2019).

Budgeting is not immune to human behaviour and its complexities. For example, managers might be encouraged to introduce 'budgetary slack', intentionally deflating revenue projections or increase anticipated expenses, to ensure they meet or exceed their targets. While this provides a safer ground, it distorts the organizational financial picture, leading to inefficient resource allocation. Over time, such practices can reduce trust and create a culture where numbers are routinely manipulated, undermining the very purpose of budgeting. (Hansen & al. 2021; Weygandt, Kimmel & Kieso 2011.)

After the formulation and approval of budgets, the focus shifts to monitoring and control. Effective control mechanisms ensure that any deviations from the budget are swiftly identified and corrected. However, loose, or insufficient control systems can result in significant discrepancies going unnoticed, leading to suboptimal decision-making. Over time, this can result in a drift from strategic objectives, potentially jeopardizing organizational goals. (Horngren & al. 2022; Libby & Lindsay 2010.)

Budgets, however, meticulously crafted, cannot account for every external variable. Sudden market crashes, geopolitical events, natural disasters, pandemics, or regulatory changes can significantly impact an organization's financial standing, turning even the most carefully planned budgets to obsolete. (Ross & al. 2022; Zutter & Smart 2019.)

2.4 The Process of Budgeting

The budgeting process is a systematic approach that companies and organizations employ to estimate their future income and expenses, thereby guiding financial decisions and aligning them with their long-term and short-term objectives. The importance of budgeting in organizational management cannot be overstated, as it allows companies to allocate resources efficiently and make informed operational and financial decisions. (Drury 2018; Hansen & al. 2021.) While the broad strokes of budgeting can be universal, the nuances, particularly when dissected into specific steps, demand a closer, meticulous examination. In the corporate milieu, a structured 10-step approach to budgeting can be identified. However, the exact steps and their sequence can vary based on the needs, size, industry, and the nature of the organization. (Drury 2018; Horngren & al. 2022; Shim & al. 2012; Weygandt & al. 2011.)

Figure 2 below by SketchBubble (s.a.) illustrates this 10-step approach which steps are first explained.

Step 1. Determine Timeline: every budget hinges upon a specified temporal frame, be it annually, semi-annually, or quarterly. This timeline not only demarcates the duration over which the financial projections apply, but also influences the periodicity of budgetary reviews and adjustments. By setting a concrete timeline, companies and organizations can ensure that their financial objectives align synchronously with their strategic time-bound goals. (Hansen & al. 2021; Zutter & Smart 2019.)

Step 2. Agree on Goals: a budget essence is its goal-orientation. These goals, which span a spectrum from tapping into new markets to enhancing profit margins, grant the budget its directionality. They act as guiding stars, determining where funds should be channelled and highlighting priority areas. These financial goals often mirror the broader strategic ambitions of the enterprise, serving as quantifiable milestones on the roadmap to organizational vision. (Horngren & al. 2022; Libby & Lindsay 2010.)

Step 3. Understand Current Financial Status: before venturing into the future, understanding past is necessary. Comprehensive analyses of the company current finances, involving a deep dive into assets, liabilities, cash flows and other salient financial statements, offering an intelligible picture of its current economic standing. Such a foundational understanding not only aids in making grounded forecasts, but also highlights areas demanding immediate financial attention. (Drury 2018; Shim & al. 2012.)

Step 4. Agree on Budget Approach: The methodology adopted in budgeting can significantly shape its outcome. Whether it is incremental, where changes are made over previous budgets, ZBB, where every item must be justified from scratch, or activity-based, which aligns budgeting with business activities. The chosen approach colors the interpretation and utilization of financial data. This decision often hinges upon the organizational past experiences, its risk appetite, and the dynamism of its operating environment. (Noreen & al. 2011; Van der Stede 2011).

Step 5. Develop Draft Expense Budget: Central to the budgeting process is the estimation of prospective outlays. By carefully examining historical costs and considering new initiatives and market shifts, a comprehensive projection of future expenses are developed. This foundational step ensures the company or organization can sustain its operations, innovate, and be competetive. (Ross & al. 2022; Zutter & Smart 2019).

Step 6. Develop Draft Income Budget: Parallel to assessing expenditures, it is vitally important to forecast revenue. By assessing various income sources, such as sales and potential profitable investments, a realistic projection can be derived. These estimates, while optimistic, are grounded in market realities and the organization proven capabilities. (Libby & Lindsay 2010; Shim & al. 2012).

Step 7. Review Draft Budget: Once an initial budget is drafted, a crucial review phase follows. This involves comparing the draft against set objectives to ensure realism and feasibility. Engaging in consultations with various departments adds robustness to this draft, ensuring a more accurate representation of financial expectations. (Drury 2018; Hansen & al. 2021).

Step 8. Approve Budget: Subsequent to the review and necessary adjustments, the budget is presented for ratification. This usually necessitates support from senior management or a specific governing body. This stamp of approval translates the budget from a theoretical document to an operational guideline for the company or organization. (Noreen & al. 2011; Ross & al. 2022).

Step 9. Document Budget Decisions: In the world of finance, the importance of thorough documentation is cruchial important. This phase involves recording all underlying assumptions, calculations, and decisions made during the budget formulation. Such diligent documentation ensures transparency and becomes invaluable for subsequent budgeting cycles. (Van der Stede 2011; Zutter & Smart, 2019).

Step 10. Implement Budget: Following approval, the company or organization take off on actualizing the budget. Resources are allocated as per the conditional guidelines. Importantly, this is not a static phase. Regular monitoring and potential recalibrations are done to make room for unforeseen market changes or internal shifts. (Horngren & al. 2022; Libby & Lindsay 2010).

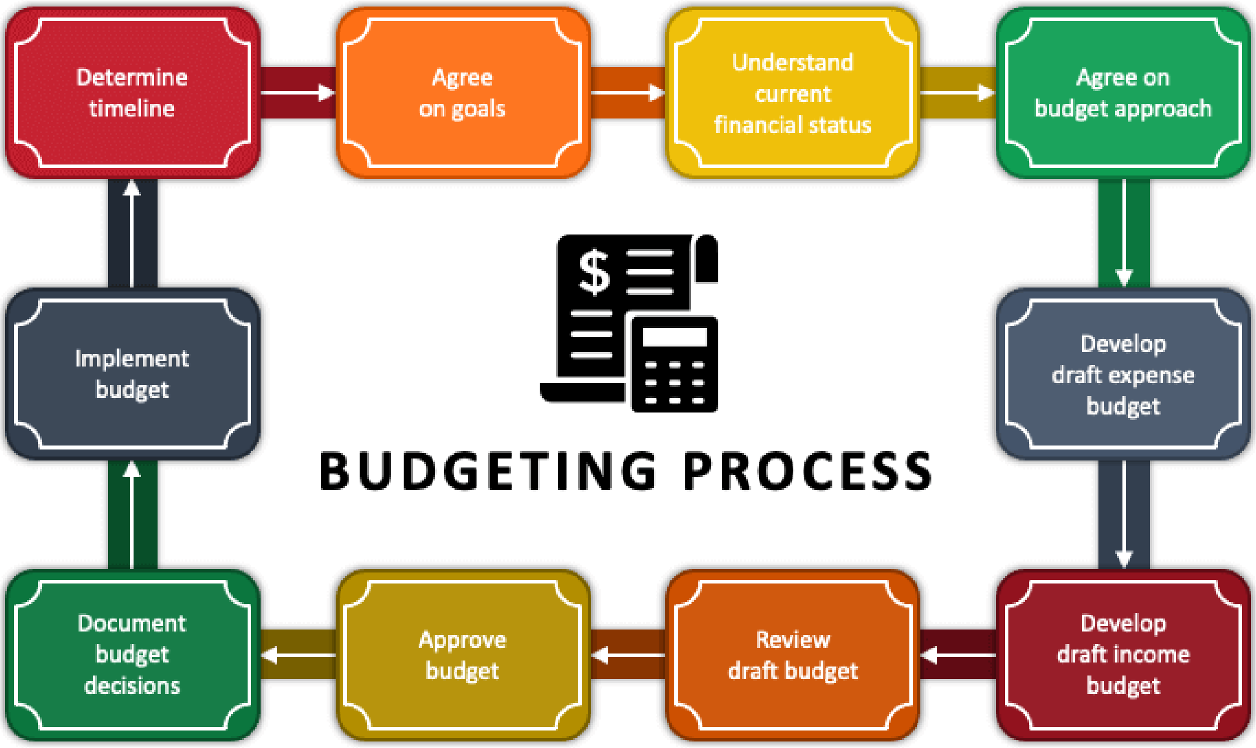

Figure 2. 10 Step Budgeting Process (SketchBubble s.a.)

2.5 Frequent Budgeting Methods

The nature of budgeting has been studied for decades, and numerous methodologies have been emerged consequently (Drury 2018; Kaptaln & Norton 2010). While a holistic review of all methodologies is too drastic (considered the nature and wideness of this bachelor's degree thesis), this sub-chapter dives into the most frequently applied budgeting methodologies. Further, drawing from foundational literature and from the result of the monitoring of Company X budgeting process, the author of this thesis has handpicked these prevalent methodologies handled in this sub-chapter.

2.5.1 Top-Down Budgeting Methodology

Top-down budgeting, as explained by Drury (2018) and illustrated on figure 3 below, is fundamentally a centralized form of budgeting where decisions about budget allocations are made by the senior management and then passed down the organizational hierarchy. Such a structure seems to summarize the strategic alignment of resources, with higher management leveraging their overarching vision to drive the budgeting directives (Kaplan & Norton 2010).

Figure 3. Top-Down (Schmidt s.a.)

While exploring the benefits of this methodology, the effectiveness in decision-making cannot be forgotten. The effective nature of this approach, with fewer involved parties, always speeds up the budgeting process (Drury 2018). Kaplan & Norton (2010) further argue in favour, proposing that the top-down approach ensures the consistency of the budget with the broader strategic objectives.

Since the leadership is directly involved, they can ensure that financial allocations resonate with the company primary goals and objectives. Horngren & al. (2022) further repeat this viewpoint, suggesting that the strategic unity provided by top-down budgeting also strengthens managerial control by aligning all financial decisions with the overall organization vision.

However, Weygandt & al. (2011) criticize the top-down approach for its bias to create disconnects between the budgeting decision-makers and the operational realities of the organization. When a budgeting is set at the top, without asking insights from the employees, the risk of misalignment becomes obvious. Drury (2018) builds on this criticism, highlighting the potential demotivating effects of such a method. When mid-level managers or department heads feel side-lined, their commitment to budget adherence might decrease, believing their expertized insights and challenges are overlooked. Weygandt & al. (2011) have also highlighted the inherent risks of potential oversights. Without the nuanced and detailed inputs from departmental managers, there is very real risks of misallocations, either budgeting excesses or shortage in crucial areas.

2.5.2 Bottom-up Budgeting Methodology

Contrary to the centralized approach of top-down budgeting, bottom-up budgeting revolves around a decentralized process wherein individual departments or units prepare their own budgets. These are then aggregated at higher levels to formulate a comprehensive organizational budget (Horngren & al. 2022). This method underscores the importance of involving those at the operational level, considering that they possess a detailed understanding of their department’s needs, constraints, and potential opportunities (Drury 2018). One of the defining characteristics of bottom-up budgeting, as highlighted by Weygandt & al. (2011) and illustrated on figure 4 below, is the democratic nature of the process. Every department is handed the autonomy to outline its budgetary needs based on its unique operational insights. Such a method arguably supports the notion that those immersed in day-to-day activities are best allocated to forecast their units’ financial needs.

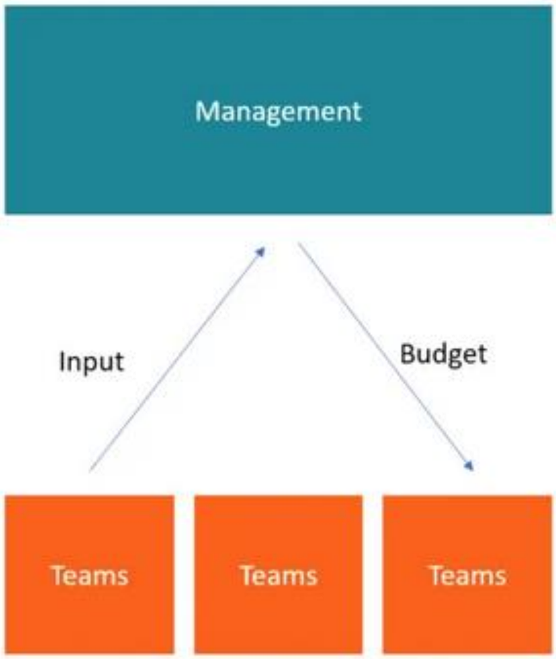

Figure 4. Bottom-Up (Schmidt s.a.)

Delving into the benefits of bottom-up budgeting, Drury (2018) argues that this methodology can lead to increased motivation and morale among departmental managers and staff. Given that they are directly involved in the budgetary process, there is an inherent sense of ownership and responsibility, which can positively affect commitment levels. Further, Kaplan & Norton (2010) argue that since the process encompasses diverse operational insights, it tends to be more accurate. The diverse insights gathered directly from departmental activities consider the specific needs of each department, which can result in a more realistic budget.

However, the bottom-up approach is not without of criticisms. One of the primary disadvantages, as per Horngren & al. (2022), is the potential for budgetary inflation. Given that departments tend to ensure maximum resources, there can be a possibility to overestimate their needs, leading to inflated budgets. Weygandt & al. (2011) add another dimension to this criticism, noting the time-consuming nature of the process. Since each department creates its budget, which then undergoes reviews and emphasis at higher levels, the overall budgeting cycle can be extend. Furthermore, while the bottom-up approach prioritizes departmental perspectives, there might be challenges in aligning these micro-level budgets with the macro-level strategic vision of the organization (Kaplan & Norton 2010). The risk occurs when the granular focus of departments does not resonate with the general organizational goals, leading to potential strategic disconnects.

2.5.3 Participative Budgeting Methodology

Participative budgeting, illustrated on figure 5 below by Weygandt & al. (2011), also known as inclusive or democratic budgeting, is a budgeting approach that actively involves employees from various levels of an organization in the budget-setting process. Instead of purely relying on top-level management directives (as in top-down budgeting) or only on frontline or departmental inputs (as in bottom-up budgeting), participative budgeting unites insights from both hierarchies to produce a more holistic budget (Drury 2018). Kaplan & Norton (2010) argue that this method is based in the belief that by involving those who are directly affected by budget decisions, a more accurate and realistic budget can be established, fostering a sense of ownership and commitment among the participants.

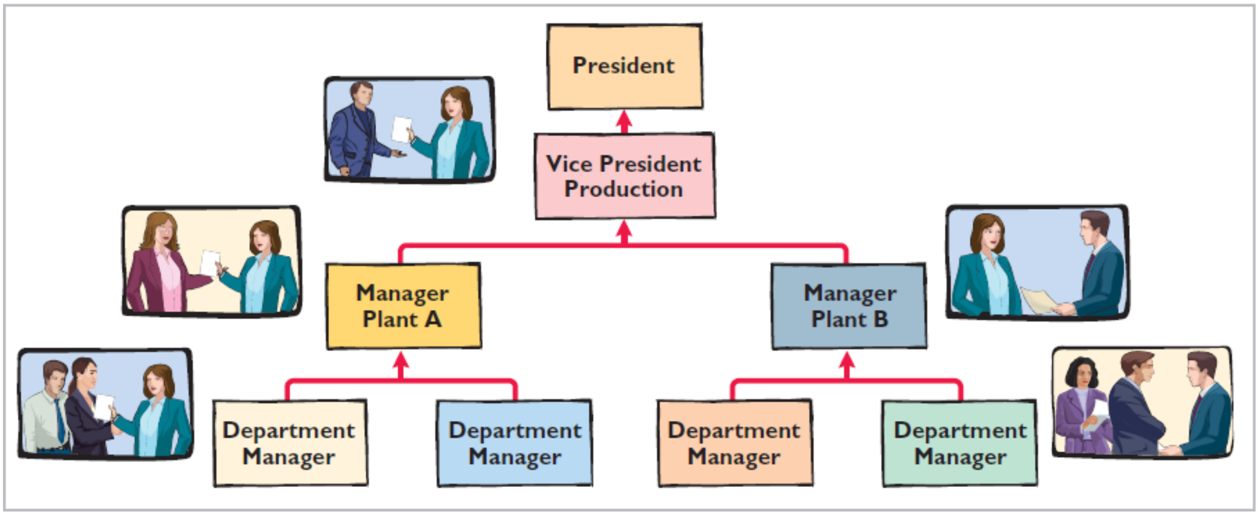

Figure 5. Bottom-to-Top (Weygandt & al. 2011)

One major argument in favour of participative budgeting is the empowerment it offers to employees. Such an inclusive approach, by Drury (2018) suggests, often improves understanding and adherence to budgetary guidelines. Horngren & al. (2022) agree, and adding that when employees feel their input matters, it amplifies morale and motivation, as they see their views integral to fiscal planning. Accuracy is another quality often associated with participative budgeting. Pooling insights from all corners of an organization can result in more precise and relevant budgetary projections. (Weygandt & al. 2011.) Drury (2018) emphasizes that managers directly involved in daily operations tend to provide data leading to smarter resource allocation. Weygandt & al. (2011) support this view, suggesting that this firsthand knowledge constantly makes budgetary outcomes more attuned to operational needs.

Also, the inclusiveness does not come without its challenges. Weygandt & al. (2011) highlight that while participative budgeting seeks to be comprehensive, it can turn into a troublesome process.

They argue that especially larger organizations, might find gathering and reconciling diverse inputs to be time-consuming. Kaplan & Norton (2010) renew this view, warning that such delays in finalizing budgets could disrupt subsequent operations that depend on timely budget allocations. Yet, the possibility of conflict is an emerging concern. As Drury (2018) points out, when diverse departments present their needs and compete for resources, there is a potential for friction. Horngren & al. (2022) adds on this by indicating that if not expertly managed, the essence of participative budgeting could be at risk. Instead of collaborative teamwork, the process can develop into departmental rifts.

2.5.4 Zero-Based Budgeting Methodology

ZBB is a budgeting approach that tasks each department or function to start their budget from scratch, without relying on previous budget allocations or assumptions (Drury 2018). Unlike traditional budgeting methods that consider previous years allocations as a base, ZBB operates under the premise that all expenses need to be justified for each budgeting period (Horngren & al. 2022). Kaplan & Norton (2010) describe the methodology as one that urges departments to rationalize each expenditure, ensuring that every dollar spent aligns with the organization's objectives and delivers value.

ZBB primary appeal lies in its potential for cost optimization. Drury (2018) mentions that by consistently revisiting and justifying expenses, unnecessary costs can be identified and eliminated. This is also confirmed by Weygandt & al. (2011), who argue that this meticulous examination pushes departments to spot between relevant and irrelevant costs, which often leads to more careful financial decisions. The potential for better alignment with strategic objectives is another benefit of ZBB. By ensuring all expenses align with and contribute to organizational objectives, the method ensures that resources are channelled towards strategically significant areas. (Weygandt & al. 2011.) Drury (2018) agrees, mentioning that ZBB requirement on justification ensures that every expenditure is purposeful and aligned with the broader organizational strategy.

However, the harshness and comprehensiveness of ZBB can also be seen as a potential disadvantage. Kaplan & Norton (2010) worn about the extensive time and effort required to execute ZBB, especially in large organizations with multifaceted operations. The method demands that every expense, regardless of its magnitude, be assessed and justified. Horngren & al. (2022) further explain that this level of control, while advantageous in spotting wasteful expenditures, can be resource-intensive and can distract managerial focus from other pressing tasks. On another downside of ZBB lies in its potential for promoting short-term thinking. As Weygandt & al. (2011) argue, the strict process might lead managers to prioritize immediate cost reductions over long-term investments. Horngren & al. (2022) further add that such a narrow focus could compromise long-term growth and innovation, especially if investments in research and development or future-oriented projects are reduced for immediate cost savings.

2.5.5 Activity-Based Budgeting Methodology in a Light of Activity-Based Costing & Activity-Based Management

Activity-Based Budgeting (ABB) together with Activity-Based Management (ABM) are the follow ups to Activity-Based Costing (ABC). ABC is a costing methodology that identifies activities in an organization and assigns the cost of each activity to products and services according to the actual consumption by each. It provides a more accurate view of cost allocation than traditional costing methods. While ABC is about understanding costs and their drivers, ABM uses this information to manage activities in the context of business processes, products, customers, and more. ABB, on the other hand, emphasizes the costs of activities necessary to produce and sell products and services, as opposed to traditional budgeting, which often merely adjusts prior budgets to account for inflation or business volume changes. (Drury 2018.) Essentially, ABB links activities with costs, making the relationship between funds allocation and activities more apparent. It encourages managers to critically review and justify expenses based on the activities that drive costs, providing a clearer understanding of how resources are deployed (Horngren & al. 2022).

Kaplan & Norton (2010) emphasize the transformative potential of ABB, providing unprecedented visibility into the organization's operations. They claim that such clarity is foundational for decision-making processes. With ABB intense focus on activities and their associated costs, it provides a granular understanding of where funds are being allocated. Such insights are crucial in highlighting areas of inefficiencies, wasteful expenditures, or operational redundancies. Weygandt & al. (2011) supplement this argument by emphasizing that ABB can be pivotal in not just understanding but also optimizing resource allocation. According to them, such optimization can lead to refinements at the operational level, which increases better use of resources and therefore also profitability. In addition, the emphasis among ABB supporters is the proactive nature of management that supports this. In industries where accuracy and foresight are invaluable, accurate forecasting of future costs based on ABC wealth of knowledge and driven by ABM operational strategies can provide a significant competitive advantage. This predictive capacity ensures that projects or departments central to organizational strategic goals are prioritized and adequately resourced. (Drury 2018; Kaplan & Norton 2010.)

On the other hand, the complexities of ABB cannot be set aside. Horngren & al. (2022) shed light on the complexity of this budgeting approach. Transitioning to ABB is not a straightforward process. This requires the organization to first navigate the complexities of ABC, which can be detailed and time-consuming. The associated resource and time costs during the initial stages of this transition can be frightening for many organizations. Drury (2018) reinforces this viewpoint by highlighting the necessary training measures required to familiarize the workforce with these new methodologies. Such major changes can lead to resentment among employees, especially those deeply ingrained with traditional budgeting approaches. Furthermore, Drury (2018) cautions against excessive focus on activities, which might lead organizations into a narrow perspective. Adding, the risk is that in the search for identifying and mitigating minute cost drivers, broader strategic imperatives might be overshadowed. The pursuit of short-term cost savings could divert attention from long-term, strategic investments that hold the potential for significant future value.

2.5.6 Performance-Based Budgeting Methodology

Performance-Based Budgeting (PBB), often referred to as Performance Budgeting, is an approach that connects the budgeting process with performance indicators. Traditional methods typically concentrate on input allocation, like resources or manpower. In contrast, PBB focuses on anticipated outcomes. (Cangiano, Curristine & Lazare 2013.) Essentially, PBB aim is to match resources with established, measurable objectives, marking a shift towards results (Drury 2018). This stance is echoed by Cangiano & al. (2013), who underscore the global momentum of governments transitioning towards results and the importance of value for money, reaffirming the relevance of PBB. PBB is built upon the principle of improving clarity on return on investments. By focusing on measurable outcomes, PBB mandates entities, both private and public, to justify their budgeting requests based on predicted results. This practice promotes both transparency and responsibility in the operations. (Shah 2007.)

One of the most evident strengths of performance-based budgeting is the emphasis on results. By binding financial allocations to specific performance targets, organizations are inherently encouraged to enhance their efficiency and effectiveness. This ensures that taxpayer money or organizational resources are spent in a way that brings about tangible, positive results. (Robinson 2007.) Drury (2018) further accentuates its role in promoting accountability. With resources linked directly to outcomes, departments and agencies become more answerable. Adding, organizations also need to continuously validate that they are making good use of their funds by delivering the promised outcomes. Another advantage, highlighted by Cangiano & al. (2013), is the potential for improved transparency. Stakeholders, be it taxpayers in the public sector or shareholders in a corporate setting, get a clearer picture of where funds are being directed and why. This clarity can foster trust and engagement.

On the flip side, implementing PBB comes with challenges. Robinson (2007) underscores, it demands strong systems to collect, analyse, and report performance data. Without reliable data, the essence of PBB gets compromised. Drury (2018) further elaborates on another potential limitation, which is the danger of oversimplification. While PBB promotes focus on outcomes, there is a risk of prioritizing easily measurable short-term outcomes over long-term goals, which might be equally or more significant but not immediately quantifiable. Cangiano & al. (2013) also warns about the cultural and organizational shifts required for PBB effective implementation. Not all units or departments might be equipped or willing to pivot to such a results-oriented approach, leading to resistance and, potentially, uneven adoption.

3 Research Method

This chapter provides a detailed overview of the methodology applied in this thesis. It outlines the rationale for employing a qualitative research design and describes the techniques used to collect and analyze the data.

The research design (illustrated with Figure 6 below) chosen for this thesis is qualitative in nature. This method was selected because it allows for a nuanced and detailed examination of the subject matter. Additionally, this approach is suitable for exploring subjective experiences, interpreting phenomena in their natural settings, and providing rich, detailed information that may help in understaing complex processes such is the budgeting process. (Creswell & Poth 2018.) Given the objective of this thesis, the budgeting process of Company X should be understand in order to propose potential improvements. For that, a qualitative research design facilitates in-dept exploration and comprehension of the complexities involved.

Raw data for this thesis were collected through semi-structured interviews. This method was chosen for its ability to elicit in-dept, detailed responses, providing a richer understanding of the subject matter (Bryman & Bell 2015). Four key stakeholders of Company X were interviewed in order to collect the raw data. These managers were selected based on their deep understanding and involvement in the Company X budgeting process. These managers are CEO, CFO, VP of Finance and senior Business Controller. The semi-structured format of the interviews allowed for flexibility, providing room for respondents to chare their thoughts and experiences. At the same time keeping the conversation focus on the key research questions. (Bryman & Bell 2015.) Before each interview, the participants were informed about the purpose of this academic research. That is, the general topics that would be discussed and their rights as participants. Each interview was conduted in a confidential manner, lasting an hour and half. Initial interviews were held in the end of May and beginning of June 2023, while secondary interviews were held end of September on the same year. Due to the location of the author of this thesis and interviewees, these were held both in person in the Finnish office of the company as well as through virtual video conference applications Google Meet and Microsoft Teams. With the participants' consent, the interviews were audio-recorded for this thesis purposes only.

Upon completion of data collection, the audio recordings of the interviews were transcribed verbatim. The transcriptions were then analyzed using thematic analysis, which is widely used qualitative method to identify, analyze and reporting patterns of meaning within the data (Nowell, Norris, White & Moules 2017). Subsequently, the identified themes were subjected to a comparative analysis. This process involved juxtaposing the budgeting process of Company X against established theoris and best practices, with the goal to identify areas for improvement. (Patton 2002.)

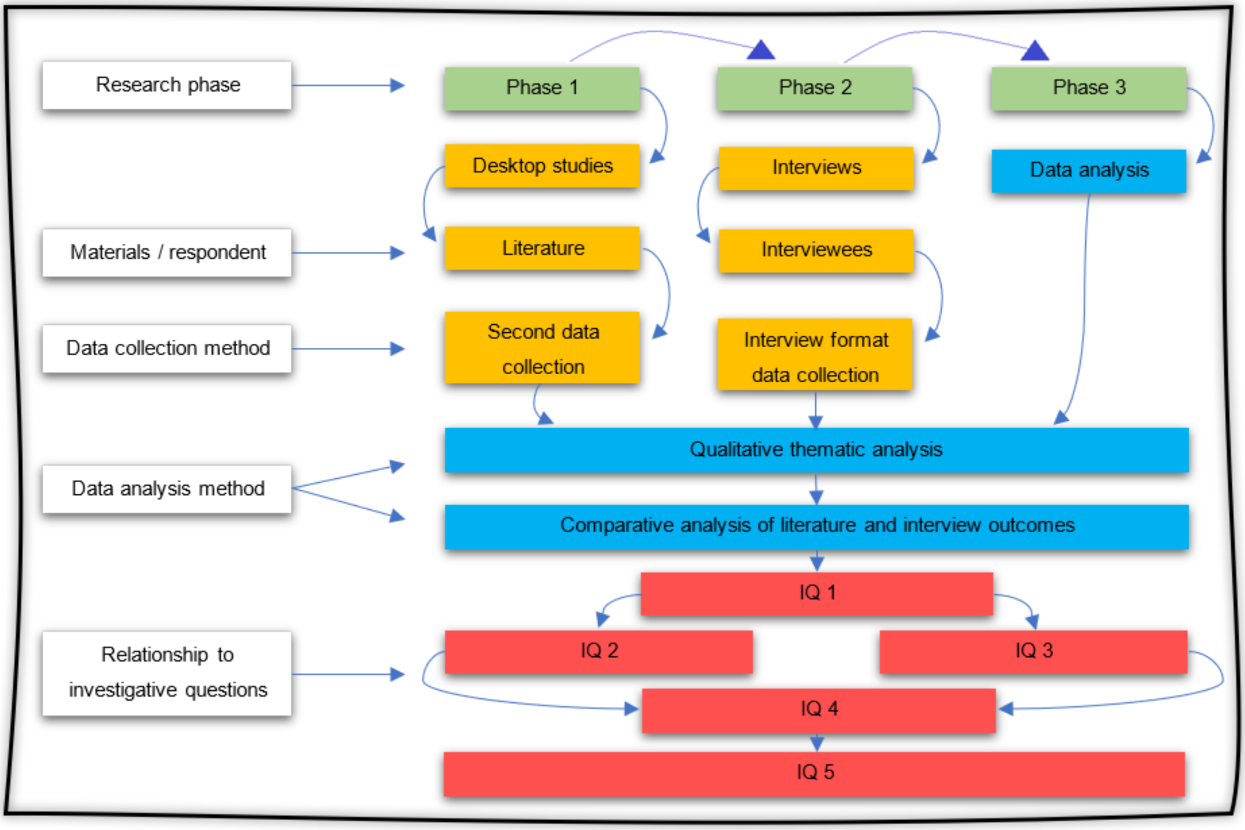

Figure 6. Research design, created by the author of this thesis.

4 Budgeting Process Assessment and Recommendations for Company X

This chapter is divided into three different sub-chapters, each of which deals with different aspects of Company X's budgeting process. The starting sub-chapter including three sub-sections, examines the current budgeting mechanism, clearly identifies the main stages and components of the budgeting process. It provides a comprehensive overview of the overall effectiveness of these key elements, while describing the challenges and bottlenecks inherent in Company X's budgeting methodology.

The second sub-chapter includes two sub-sections. First sub-section discusses improvements which will be implemented to the next fiscal year considering when this thesis is written. Second sub-section discusses potential improvements that the Company X management has suggested. It examines the scope and impact of these proposed improvements on the current fiscal framework.

In the latter sub-chapter, the author of this thesis offers a series of recommendations based on the insights gathered from the literature. The purpose of these recommendations is to supplement and improve the existing budgeting process of Company X. Furthermore, effectively solving identified problems in the budgeting process and optimizing the overall budgeting system.

The following part up to the first sub-chapter briefly explaining the crucialness to assess the current budgeting process within any company and the reasons why the author of this thesis gives recommendations for the budgeting process to the Company X.

The evolution of a business demands a concomitant adaptation of its budgeting and control mechanisms. As business environments experience continual shifts, the applicability and efficiency of preexisting budgetary models may diminish, emphasizing the critical importance of periodic evaluations and adjustments. (Drury 2018; Weygandt & al. 2011.) For expanding organizations such is the Company X, an aged budgeting framework can result in flawed financial projections, potentially preventing strategic decision-making and appropriate resource allocation (Horngren & al. 2022).

Moreover, the expansion of business operations inherently brings with it complexity in financial and operational activities. This growing complexity calls for a budgeting framework that is both flexible and robust, equipped to encapsulate the various elements of the business. (Hansen & al. 2021; Weygandt & al. 2011.) When neglecting to improve budgeting procedures in line with the organization, growth can lead to financial consequences that do not meet the current needs of the business, culminating in potential inefficiencies and a suboptimal resource allocation (Hariharan 2020; Libby & Lindsay 2010).

Additionally, in today's highly competitive business terrain, enterprises need to adopt a forward-thinking approach, as opposed to a purely reactive one. A modernized budgeting system fosters proactive financial planning, enabling rapid responsiveness to market shifts and harnessing emerging opportunities. (Noreen & al. 2011; Weygandt & al. 2011.) Without such a forward-focused framework, companies' risk being ill-prepared to skilfully navigate the multi-faceted dynamics of the marketplace, which may jeopardize their competitive advantage (Zutter & Smart 2019).

4.1 Evaluating the Budgeting Process

This sub-chapter of the thesis written by the author opens current budgeting process in detail, which is effective in the Company X. To understand the current budgeting process more easily, this sub-chapter has divided into three parts. Each part focuses on their key specifics. Starting the process of budgeting itself. In that sub-section the structure and content of the text provide a comprehensive overview of the key stages and components of the current budgeting process for the specified organization. It gives insights into both the strategic and technical aspects, roles of different stakeholders, and the overall philosophy underpinning the organization's approach to budgeting. The next sub-section of this sub-chapter ties in the roles of key stakeholders, outlines their responsibilities, and ensures that each stage is explained in the context of its impact on the broader budgeting process and overall organizational goals. Latter sub-section of the text is comprehensive, touching upon several typical challenges faced during the budgeting process. It also effectively ties in potential solutions and the contemporary issue of CSR, making it relevant and thorough in its coverage of the topic.

4.1.1 Budgeting Process Key Stages and Components

The current budgeting process involves several key stages and components that contribute to the overall financial planning and resource allocation within the organization. This section of the thesis has been illustrated by the author of the thesis with the figure 7 below this paragraph, and should be followed throughout the whole section. The process begins with a mid-year review, known as the media review within the Company X, where the financial figures are analyzed, and potential adjustments to the current year's budget are considered. During this review the Board of Directors (BoD) with CEO and CFO establish top targets for revenue, informed by key sales metrics such as backlog targets and pipeline values. The objective is to generate a comprehensive understanding of the fiscal direction in which the organization aims to move over the following year. This forms the backbone of the budgeting process, providing a strategic roadmap that aligns with broader organizational objectives.

Figure 7. Fiscal year budgeting process timeline of Company X, created by the author of this thesis.

While on the media review, the organization engages in company Summer Days (whole company held internal event which lasts for a week). It is designed to foster participation and input from every employee. During this phase, ideas and feedback are gathered from various departments. The reason for this is to help to formulate a longer-term view of the budget, extending to the future. The engagement of employees in this process is crucial to ensure the success of the budgeting efforts. Because of the nature of the business this plan is not just for the following fiscal year, but is a more extensive blueprint for the company growth and development. The long-term view taken from this underscores the importance of strategic forecasting in the budgeting process.

Once these high-level targets are established, the process moves to more granular financial considerations. Following significant stage is Strategy Refresh (SR), which occurs annually during a board meeting on early autumn. The SR involves updating and refining the organization strategic goals and direction. Feedback from various stakeholders and new ideas from the organization are taken into account during this process. The strategic decisions made during the SR directly influence resource allocation and investment decisions.

The actual budgeting process commences once the strategic direction is set. For the current fiscal year budget, the budgeting process was top-down approach, while it could also be bottom-up, or a combination of top-down and bottom-up, depending on the availability of resources and organization requirements. This phase involves building financial models and collaborating with various business units to gather information and data for budgetary purposes. Negotiations may occur as proposals are consolidated by the management team. Some adjustments might be necessary to fit the budget within market constraints or align with the organization strategic objectives.

In this company, VP of Finance plays a leading role in actual budgeting process. While the CEO and the CFO have significant involvement, overseeing and controlling goals and costs, these C-level executives ensure the budget alignment with the company overall financial strategy. Notably, the budgeting process is not an isolated financial exercise, it is a collaborative effort requiring input and agreement from various departments. This collaboration ensures that every department needs are represented and that the resulting budget is balanced, fair, and in the best interest of the organization. The budgeting process also incorporates written documentation and guidelines to ensure consistency and coherence in the financial planning efforts. The organization provides technical documentation and annual guidance updates for the budgeting process. This documentation includes information on what aspects to review, resource allocation criteria, and the outcomes of financial analyses.

Sustainability considerations are an emerging focus in the budgeting process. The organization is taking steps to incorporate sustainability principles into budgetary decisions. This includes setting Key Performance Indicators (KPIs) related to sustainability goals and establishing annual targets. The budgeting process will be aligned with these sustainability objectives, and policies will be formulated to support environmentally responsible resource allocation and financial planning. This signifies a significant shift towards embedding sustainability in the financial decision-making of the organization.

In terms of departmental and management collaboration during budgeting, three core forums play crucial roles. First, Summer Days provide a platform for engaging every employee of the company, keeping them informed about the budgeting process and encouraging their input. The Executive Leadership Team (ELT) or Management Team holds regular discussions on budget-related matters and take an active role in shaping the budget. Lastly, the BoD approves major resource allocations and significant changes proposed during the budgeting process. Once BoD has approved the budget, it is fixed and further adjustments for next fiscal year are not allowed.

4.1.2 Effectiveness of Budget Management

The effectiveness of budget management is significantly influenced by the key stages and components involved in the budgeting process. These stages and components work synergistically to ensure that financial goals are met, costs are controlled, decisions are well-informed, success is measured, and CSR considerations are incorporated. In Company X, key stakeholders to maintain fiscal stability are CFO, VP of Finance and senior Business Controller. In order to achieve that, they follow key stages in budget management.

The strategic planning stage plays a pivotal role in budget management effectiveness. It involves setting clear financial goals and aligning them with the organization overall strategic objectives. By establishing a coherent roadmap for resource allocation, the top-down approach of the budgeting process ensures that financial decisions are directly linked to the company long-term vision, fostering a sense of direction and purpose. According to the literature and what the author of the thesis has monitored in the Company X this methodology is supported. While it looks simple, it has arised risks for downside.

To continue, the technical budgeting stage contributes to the accuracy and feasibility of the budget. Main key stakeholders here are VP of Finance and senior Business Controller. Their responsibilities encompass not just the thorough examination of historical data, market trends, and other relevant factors to forecast revenues, costs, and resource needs, but also setting the financial targets for each department. By identifying potential challenges and opportunities through technical budgeting analysis, they can make informed financial planning and resource allocation decisions. Such a methodical approach promises more fair distribution of resources across the organization, preventing overspending and guaranteeing optimal operational output.

Following budget approval stage. This stage highlights the importance of the budget not just as a financial document, but as a key tool for strategic decision-making. Further, in this stage budget is presented to top management. The budget offers a clear financial roadmap, helping stakeholders make informed decisions about allocating resources, evaluating investments, and outlining operational plans. Beyond these functions, the budget serves as a reference for assessing the potential of new projects and ensuring that organizational actions align with its broader goals. By finalizing and approving the budget at this stage, the organization affirms its role as an essential guide for both financial and strategic planning.

Within the premises of Company X, in the process of budgeting, the budget execution stage is next. This stage is a crucial phase that comes after the budget has been approved and focuses on the real-world application of the outlined financial plan. This stage is crucial for measuring how effectively the budget is being managed. To determine the budget effectiveness, the organization relies on KPIs such as the growth in revenue, the magnitude of gross margins, and the efficiency of cost control. These KPIs are regularly monitored to provide a clear picture of the financial standing and performance of the organization. This systematic, data-driven approach helps management understand current financial positions, pinpoint areas that require attention or improvement, celebrate areas where they are performing well, and make informed decisions on resource distribution for upcoming periods. The complexity of this phase are overseen by the VP of Finance, senior Business Controller and ultimately by CFO. These professionals are responsible for closely monitoring the company actual performance in comparison to the budgetary projections. Their analytical expertise is essential in identifying any potential discrepancies between the planned budget and the actual expenditures and revenues. When variances arise, they are adept at understanding the causes and promptly instituting corrective measures to realign the financial activities with the budget framework. Their proactive approach ensures that the organization remains on course, adhering to its budgetary guidelines and financial goals.

The latter stage is period budget review maintained by VP of Finance and senior Business Controller. Their primary responsibility centers on maintaining strict financial accountability. They undertake a punctilious comparison of the budgeted projections against actual financial outcomes, highlighting any divergences. Beyond merely identifying these variances, they engage in a deeper analytical exercise to discern the causes behind them. Such comprehensive understanding subsequently informs the adjustments in forthcoming budgets, embedding a cycle of perpetual financial enhancement within the organization. This is done with quarterly rolling budget, which emphasize this stage as continuous adaptability and forward-looking perspective. Regular tracking of budgetary performance against actual results allows for early detection of variances and facilitates proactive corrective actions. This ongoing evaluation helps maintain financial discipline, ensuring that expenditures are in line with the approved budget and identifying areas where cost-saving measures can be implemented.

Further, the incorporation of CSR considerations enhances the overall effectiveness of budget management. By aligning budgetary decisions with ethical and sustainable practices, the organization demonstrates its commitment to responsible business conduct. This integration ensures that financial decisions are not solely driven by short-term gains but also take into account the long-term impact on society and the environment.

4.1.3 Challenges and Bottlenecks in the Budget Process

The budgeting process is an essential aspect of financial planning and decision-making within organizations. However, it does not come without its share of challenges and bottlenecks. Commonly encountered obstacles can hinder the effectiveness and efficiency of the budgeting process, impacting overall financial management. Among the most prevalent challenges are issues related to functional-level perspectives and the potential siloed thinking of individuals responsible for specific functions. This lack of inclusion in top-down approach in a broader organizational view can hinder collaboration and lead to disagreements during budget discussions in later stage of budget allocation.

Another significant bottleneck in the budgeting process is resource constraints, especially concerning the availability of the finance team. Insufficient time and resources dedicated to budgeting can result in suboptimal outcomes and prevent a more thorough and detailed budget creation. Furthermore, the budgeting process can become protracted and less efficient when disagreements arise among ELTs or boards during budget decision-making. Varying viewpoints and potential conflicts can slow down the process and impede the establishment of an optimal budget that aligns with the organization's strategic goals.

Effective communication and collaboration are critical for mitigating these challenges and bottlenecks. Ensuring that all relevant stakeholders have a clear understanding of the organization's broader goals and objectives can foster a more cohesive approach to budgeting. Additionally, the involvement of competent and strategically capable individuals in key decision-making roles can help overcome challenges related to functional perspectives. Moreover, efforts to alleviate bottlenecks may require addressing resource limitations and optimizing the allocation of resources, such as providing adequate time and support for the finance team to focus on the budgeting process.

Incorporating CSR into the budgeting process poses its own set of challenges. The main obstacle in this regard is striking a balance between adhering to strong ethical principles and optimizing resources. Decisions regarding CSR-driven initiatives must consider the potential benefits and costs, as some socially responsible endeavors may involve higher expenses without immediate tangible returns. Evaluating the value and long-term impact of CSR initiatives within the budgeting process requires careful consideration and alignment with the organization's values and strategic objectives.

4.2 Management-Driven Innovations in Company X Budgeting Process

This sub-chapter handles improvements in budgeting process in Company X which will be implemented for upcoming fiscal year as well as improvements which top management have thought of what could be implemented. The starting sub-section showing how the company is moving towards a more integrated, efficient, and sustainable budgeting process. The focus on communication, technological systems and sustainability showcases a holistic approach to financial planning and strategy. At the same time, latter part of this sub-chapter is to know how potential improvements could refine the budgeting process. This involves advanced technologies and methodologies.

4.2.1 Improving the Budgeting Process for Efficiency

Addressing the inherent budgeting challenges necessitates an in-depth and integrated approach that combines both strategy and functionality. On the foundational level, the company is pivoting towards synergizing its strategic ambitions with efficient combination of top-down and bottom-up budgeting method which corresponds to participative budgeting. By using NetSuite, a well known enterprise resource planning, commonly speaking referrs to ERP system, the company intends to streamline its budgetary framework. This is ensuring that budget allocations are accurate, timely, and reflective of the company overarching financial aims. The addition of Power BI tool into this dynamic, aids in data analytics. By turning vast data reservoirs into actionable insights which in turn helps to understanding sales, backlogs, and average order sizes. These are crucial metrics that create stronger budgetary foundation. This two-pronged technological adaptation not only addresses the systemic issues of budgeting but also aligns the process more closely with the company strategic goals.

The revised model revitalizes the exchange of information that is the lifeblood of any effective budgeting system. Central to this communication is a bottom-up approach that values and integrates feedback from different layers of the organization. An inclusive strategy that actively seeks inputs from all relevant departments, right from beginning stages of the budgeting process, will be implemented. Tools such as Power BI are pivotal in this transformation, not merely as data analytics utilities but as communication enhancers, promoting transparency across the board. This, coupled with the standardized data platforms like Salesforce, seeks to eliminate uncertainties, ensuring that all stakeholders, regardless of their position, are tuned to the same financial frequency.

To recalibrate the budgeting process, the incorporation of globally recognized best practices is non-negotiable. Foremost among these is the integration of predictive analytics. By anticipating financial shifts and nuances, the company can proactively align its resources, thereby preempting challenges rather than merely reacting to them. Adding simulation to this mix offers a sandbox environment where various financial scenarios can be played out, tested, and fine-tuned, ensuring that the finalized budget is both robust and flexible. Furthermore, the move from a quarterly to a monthly rolling budget, underscores the Company X commitment to agility and adaptability. These are characteristics that are invaluable in the ever-fluctuating global financial landscape.

Evaluation is an integral aspect of any modification. In this budgetary reformation, the company is not merely content with implementing changes but is eager about measuring their impact. Time investment becomes a vital metric, assessing the temporal efficiency pre and post-modification. Discrepancies in budget drafts serve as another crucial metric, as their reduction would indicate smoother inter-departmental coordination and communication. Furthermore, the company seeks to compare the projected financial outcomes via rolling budgets with actual financial results, thus gauging the effectiveness of the new budgeing model. By employing these multifaceted metrics, the company ensures that its modifications are not merely changes, but improvements.

Resources, both technological and human, form the foundations upon which these budgetary modifications rest. Software utilities like NetSuite and Power BI represent the technological lead, providing the necessary digital infrastructure and analytical prowess. However, technology in isolation is sterile. Thus, human resources, especially top management's time and expertise, are pivotal. Their involvement signifies not just a top-down directive but a collaborative endeavor. Additionally, given the recent company acquisition, there is an amplified need for training, ensuring that varied budgeting cultures and processes are seamlessly amalgamated into a unified whole.

In the modern business environment, financial reporting must be inextricably linked with sustainability and CSR. A company that is aware of this harmonious relationship integrates environmental, social and governance criteria into its budget. By internalizing these principles, the company ensures that its budgeting does not operate in a socio-environmental vacancy but is reflective of larger global concerns. The democratization of the budgetary process, wherein every employee voice finds an echo, further emphasizes the company commitment to social responsibility, turning budgeting into an exercise in both fiscal and ethical responsibility.

4.2.2 Enhancing Budgeting Process with Tech & Methodologies

The integration of new technologies, tools, and methodologies, such as artificial intelligence (AI), data analytics, and ZBB, into the budgeting process holds significant potential to optimize resource allocation and enhance decision-making. This academic exploration seeks to identify how these advancements can be effectively incorporated into the budgeting process to maximize efficiency and accuracy.

The adoption of AI and data analytics can revolutionize the budgeting process by providing valuable insights into various aspects of the organization operations. AI-powered algorithms can analyze historical data, market trends, and customer behavior to generate more accurate revenue and cost forecasts. By leveraging predictive analytics, budgeting teams can anticipate fluctuations in demand, identify revenue opportunities, and assess the scalability of different business aspects. This enhanced forecasting capability enables more informed resource allocation, ensuring that budgetary decisions align closely with anticipated needs and goals.

Moreover, data analytics can facilitate a deeper understanding of the organization financial performance, enabling data-driven decision-making. By visualizing key financial metrics and performance indicators through data dashboards and reporting tools, budgeting teams gain valuable real-time insights into the financial health of the company. These data-driven insights empower decision-makers to make informed choices on resource allocation, identifying areas where investments are most likely to yield positive returns.

In addition to data analytics and AI, the integration of ZBB presents another avenue for optimizing resource allocation. ZBB involves reevaluating all expenses from scratch, rather than using the previous years budget as a baseline. By scrutinizing each expenditure item and justifying its necessity, ZBB encourages a more rigorous budgeting process, where each expense must prove its value in contributing to organizational goals. Although ZBB can be time and resource-intensive, it encourages a more efficient allocation of resources by eliminating redundant or low-value expenditures.

However, it is essential to consider the challenges that may arise during the integration of these technologies and methodologies. Implementing AI and data analytics requires adequate data infrastructure and skilled personnel to manage and analyze the data effectively. Moreover, the organization needs to invest in proper training to ensure that budgeting teams can fully leverage the capabilities of these technologies. Similarly, adopting ZBB demands a high level of organizational maturity and commitment, as it requires significant effort to reevaluate all expenses systematically.

4.3 Author’s Recommendations

To further improve Company X budgeting process effectiveness there are plenty of options. The author of the thesis has carefully monitored Company X budgeting process and overall operations within the company. The number of suggestions is plenty, however not every recommendation is as effective, according to the literature and to the nature of the business of Company X. Therefore, these five recommendations based on the literature review and close monitor of Company X, would give tremendous boost for the process of budgeting of Company X.

4.3.1 Incorporation of Other Methodologies

The process of budgeting is something which is not written. There is no right or wrong way of having the budgeting in company. Each company should find a way of doing the process of budgeting the way which suits them the most and would be efficient. This sentiment has also been expressed by Drury, Horngren, Weygandt and other authors and experts in the field of finance. For a start, the author of the thesis suggests the Company X could incorporate elements from various budgeting methodologies, including parts from ABB, PBB and increase the efficiency part from participative budgeting.

ABB begins with the identification and categorization of budgetary activities based on their cost drivers. Company X could use this approach to pinpoint activities related to product development, customer acquisition, and support services. Completely understanding cost drivers ensures accurate resource allocation. ABB emphasizes resource allocation in alignment with the importance and impact of each activity, optimizing efficiency. Furthermore, implementing ABC principles allows the company to assign costs accurately to each activity, facilitating the identification of cost inefficiencies and optimization of resource allocation.

PBB introduces the integration of performance metrics and KPIs into the budgeting process. Company X can utilize this methodology to track progress and evaluate performance against budgeted targets. By aligning objectives with KPIs, the organization enhances its ability to achieve its goals. Additionally, PBB emphasizes continuous monitoring and assessment against budgeted targets, enabling real-time adjustments and ensuring that the budget remains dynamic and responsive to changing circumstances.

Considering the size of the Company X, the author of this thesis believes that budgetary slack is too big (in terms of ratio). High budgetary slack is partially achieved during strategic decisions. Nevertheless, participative budgeting encourages input from various stakeholders within the Company X, fostering transparency and inclusivity. This approach involves input from department heads and employees throughout the company, ensuring a well informed and realistic budgeting input process. Collaborative goal setting is a hallmark of Participative Budgeting, as it engages multiple stakeholders in setting budgetary goals. This engagement promotes a sense of ownership and ensures that budgetary goals are closely aligned with the strategic objectives of Company X. Therefore, after revising plenty of literature, closely monitoring next year budgeting process, the author suggests having more bottom-up minded process than more top-down, as it currently is.

This recommendation should be considered as further improvement, as this year budgeting process applied it partially. Meaning the budgeting process in Company X, is too much top-down methodology driven and bottom-up approach included were a small fraction. The author of this thesis truly believes, based on self-monitoring of budgeting process in Company X and relying on literature, that having a bit more bottom-up driven budgeting process, would leave drastically smaller budgetary slack than this year top-down driven participative budgeting process.

For successful implementation of these budgeting methodologies requires holistic approach. This includes providing comprehensive training and education to at least department heads to ensure that all stakeholders understand the complexities of the new methodologies. The development of clear processes and guidelines is essential for guiding the budgeting process effectively. Additionally, the adoption of budgeting software for data analysis and reporting supports the implementation process. To address potential resistance and concerns, strong change management strategies must be in place to prepare the organization for the changes ahead.

The integration of these methodologies offers several advantages, including more efficient resource allocation, better transparency and clarity, increased employee engagement and commitment, and better alignment of the budget with strategic objectives. However, challenges such as complexity, potential delays in the budgeting process, and resistance to change must be acknowledged and addressed during the implementation phase.

4.3.2 The Balanced Scorecard

The Balanced Scorecard (BSC) is an innovative management and measurement system that integrates an organization's strategic objectives with its tactical activities. Kaplan & Norton (2010) introduced the BSC as a tool that reframes the purely financial perspective to include other performance measures, allowing managers to obtain a balanced and comprehensive view of organizational performance. This perspective considers financial, customer, internal processes, and learning and growth dimensions. At its core, the BSC provides managers with a broader perspective on business performance by blending financial measures, which portray the results of past actions, with operational measures on customer satisfaction, internal processes, and the organization ability and commitment to improve and create future value. This blend is particularly useful as it not only offers a more comprehensive performance evaluation but also ensures alignment with the organization strategic direction. The efficacy of the BSC lies in its comprehensive nature. While traditional financial measures remain crucial, they do not provide insights into the drivers of future financial performance. (Drury 2018; Kaplan & Norton 2010.) Hansen & al. (2021) note that managers should look at a combination of financial and non-financial indicators to understand the health and performance of their organization fully. This is where the BSC could be implemented and serving as a bridge between the organization vision and its day-to-day operations.

Integrating BSC into the budgeting process of Company X can provide several advantages. As the budgeting process in Company X involves forecasting revenues, expenditures, and thorough examination and interpretation of the data derived from the budget to ensure alignment with the company strategy, goals, and objectives, the inclusion of the BSC can streamline this by aligning the budgetary aspects with the strategic objectives of the company. Kaplan & Norton (2010) emphasize that by incorporating the BSC, organizations can ensure that financial and non-financial metrics, targets, and initiatives are all derived from and support the company overall strategy. This would mean that budgeting allocations in Company X would be better suited to strategic initiatives, ensuring a higher return on investment. Furthermore, given that the BSC emphasizes forward-looking metrics related to learning and growth, Company X can ensure that its budgeting process is also aligned with future growth opportunities (Hansen & al. 2021). This can lead to the optimal allocation of resources towards initiatives that foster innovation and continuous improvement.

While initially seen as a mere performance measurement tool, BSC has evolved into a strategic management system. By ensuring that Company X budgeting process is tied to its strategic objectives through the BSC, the organization can better position itself for sustainable growth and improved financial performance. The integration of such a system allows for a more holistic approach to management, ensuring that all facets of the organization are considered and that the company remains agile in the ever-evolving business landscape.

4.3.3 Budgeting Tool

The following recommendation for the Company X is thrived from the fact that Company X do not use any budgeting tool, instead is using Excel for creating and monitoring budget. That means, the recommendation the author of this thesis gives to decision makers in Company X is to take budgeting tool(s) in use.

As Drury (2018) argues, budgeting is no longer simply a fiscal exercise, but a key instrument that defines the direction and efforts of an organization. This view is further assured by Hansen & al. (2021), who emphasize the role of budgeting as an underlying mechanism for policy formulation and key decision-making. Moreover, Scarborough (2012) argues that in today’s business world, budgeting is not just about numbers, it also plays a key role in making long-term plans and day-to-day decisions while moving away from just tracking transactions to shaping strategy. Therefore, the tools selected to drive budgeting process are critical in ensuring both its efficiency and effectiveness. Utilizing Excel for budgeting offers simplicity but fails to capture the nuances and complexities as businesses grow and evolve (Drury 2018). As claimed by Drury (2018), the optimization of the budgeting process through advanced tools can lead to significant operational improvements and strategic advantages. Therefore, the pivot towards advanced budgeting tools is not only a technological upgrade. It is a transformative step, meaning that the tools used in financial processes reflect and are relevant to the business goals which business leaders seek to realize. (Horngren & al. 2022.)

Another significant value is the provision of real-time insights. At its core, real-time budgeting tools offer organizations an up-to-the-minute snapshot of their financial position. (Noreen & al. 2011.) Instead of relying on potentially outdated data from end-of-day, weekly, or monthly reports, managers can access and base their decisions on the most recent financial information. This instantaneous overview is crucial, especially in volatile markets or industries where financial dynamics can shift rapidly. In the longer perspective, the scalability of budgeting tools stands out. Scarborough (2012) explains how foundational systems, adequate in emerging business stages, can become restrictive as businesses expand. Modern budgeting tools, with their scalability tenets, ensure they evolve in tandem with business growth. The integrative capacities of modern tools, allowing for seamless data flow across enterprise systems, streamline not just budgeting but all interlinked processes (Drury, 2018). Lastly, tools which are using predictive analytics provide companies with foresight, allowing them to proactively navigate market fluctuations, underscoring the strategic essence of budgeting elucidated (Horngren & al. 2022).

As Company X begins its journey with Oracle NetSuite to consolidate its accounts payable (AP) and accounts receivable (AR) tasks in a group level, it would be wise to consider leveraging the Planning and Budgeting capabilities within the same enterprise resource planning system. NetSuite Planning and Budgeting is specifically designed to offer a wide array of features that cater to multiple aspects of financial planning, forecasting, and analysis. As NetSuite is already being integrated, the cloud-based approach could potentially reduce redundancy, eliminate data inconsistencies, and enhance the fluidity of information flow across the group level. Furthermore, with NetSuite Planning and Budgeting, Company X would be better equipped to conduct intricate forecasting exercises. The tool facilitates the creation of “what-if scenarios”, allowing managers to predict the potential outcomes of different financial strategies, a feature that is becoming increasingly indispensable in today’s volatile financial landscape. Beyond just planning and budgeting, the tool also provides robust reporting capabilities. With its advanced visualization features, Company X leadership can gain deeper insights into financial performance metrics, aiding them in making informed strategic decisions. (NetSuite s.a.)

4.3.4 Zero-Based Budgeting as a Strategy Day

Implementing ZBB on a different manner but at the group level within Company X could serve as a robust mechanism to ensure fiscal discipline and resource optimization. By initiating the ZBB process on a designated day (whether during company winter or summer gatherings or on both) not only is a focused environment created, but it also fosters collective decision making and engagement. This in-depth and collaborative approach to budgeting ensures that each department cost on tools, is thoroughly scrutinized. Such a setting leads employees to evaluate the tools they employ, assess relevance of the tools, and identify unnecessary tools which results in release of the resources. (Horngren & al. 2022; Weygandt & al. 2011.) The essence of ZBB lies in its potential to instil a culture of accountability. By asking departments to defend and justify their financial needs, it forces them to examine on the value derived from each tool or resource. Should a tool exhibit minimal usage or negligible impact on departmental outcomes, its continuation would be considered questionable. This, in turn, promotes cost efficiency, ensuring that resources are allocated sensibly and only to tools and processes that in fact contribute to the company objectives. (Drury 2018; Noreen & al. 2011.) This event could be seen as responsibility case on whole company gatherings (either on summer, winter, or both) where will be examined why the software is needed; what value it provides; will it provide short-term saving or long-term saving?

4.3.5 Active Monitoring of Global Markets

In today's globalized business environment, the importance of keeping up with international market trends cannot be overstated. Drury (2018) emphasizes this way of thinking by mentioning the nature of global market monitoring for organizations that intend to not only survive but thrive in this interconnected environment. Scarborough (2012) agrees with this, pointing out that companies need to always change and come up with new ideas based on what is happening globally. So, how can Company X use information from global markets to make its budgeting process better? This is the fifth recommendation by the author of the thesis for Company X, to improve the budgeting process.

Monitoring global markets involves keenly observing, understanding, and analyzing trends across various regions and sectors, as highlighted by Drury (2018) and Horngren & al. (2022). Such trends could range from economic fluctuations, emerging technologies, to even shifts in political landscapes and cultural dynamics. Scarborough (2012) and Noreen & al. (2011) state that comprehending these trends is pivotal, enabling companies to make informed decisions during budgetary planning. For an organization like Company X, weaving in information from reputable global sources into their budgetary framework is invaluable. The emphasis by Horngren & al. (2022) on the indispensability of up-to-date and precise global information resonates with this perspective.

Furthermore, in the ever-evolving business environment of today, the argument of Hansen & al. (2021) stands firm: companies must exhibit flexibility and base their decisions on tangible, real-time data. Such an approach ensures that budgets are not just reflections of past performance but are attuned to the present global realities. Moreover, global insights foster a reimagined approach to budgeting. Instead of just looking at past data, Hansen & al. (2021) suggest considering what might happen in the future based on global insights. Such a forward-thinking approach gives companies a competitive edge, as Scarborough (2012) highlights. Therefore, using insights from global markets in budget process can help Company X prepare for risks and take advantage of new opportunities. Noreen & al. (2011) say that this approach helps companies improve their financial plans by balancing immediate goals with long-term plans, a view shared also by Horngren & al. (2022).

5 Discussion

The last chapter of this thesis will draw discussions based on the theory, the actual budgeting process of the Company X and the interviews conducted in terms of what could be. Further, this chapter will discuss the overall reliability, validity, and relevance of the thesis, and the reflection on the learning for the author. The chapter will end with ideas how could this thesis be even furhter developed in the other papers either by the author of this thesis or by anyone else.

5.1 Key Findings

This sub-chapter provides a reflective exploration of the key findings obtained during this research, enriched by empirical analysis. The findings summarize a comprehensive understanding of Company X's budgeting process and the potential avenues for improvement.

Chapter 4.1 delves into the current budgeting process employed by Company X, accompanied by an evaluation of its inherent strengths and weaknesses. This overview provides insights into the practical functioning of the process. Chapter 4.2 extends the focus on Company X's commitment to continuous improvement, as evidenced by its outlined plans to enhance the budgeting process in the immediate future. This forward-looking approach underscores the organization's dedication to financial brilliance. Chapter 4.3 represents the culmination of analysis conducted in previous chapters, enriched by empirical data. It unveils previously unaddressed areas and potential loopholes within the budgeting process. These findings have been thoughtfully transformed into actionable suggestions, offering a roadmap for improvement. This sub-chapter provides strong recommendations for enhancing the budgeting process. It is important to note that these recommendations are accompanied by brief explanations, as the scope of this study did not delve into the complex details of implementation or resource requirements.

In essence, this sub-chapter serves as a reflective framework through which we view the key findings, enriched by empirical analysis. It not only sheds light on the present state of Company X's budgeting process but also offers a strategic roadmap for improvement. The key findings presented here, when contemplated with introspection, guide the organization toward a more robust and strategic approach to budgeting.

5.2 Reliability, Validity, and Relevance

In this thesis, reliability was a fundamental objective, achieved through a diligent research approach. The foundation of this reliability rests on the utilization of well-established literature authored by renowned experts in the field. By drawing from diverse academic sources the research framework was ensured. The credibility and authority of these sources provided a solid basis for the reliability of the information presented. Moreover, data used in this study did not rely on a single or limited set of sources but embraced a comprehensive approach. Multiple sources were used to cross-check and validate key findings, thus reducing the likelihood of bias or inaccuracy. This combination of data from various reputable sources reinforced the reliability of the insights presented within this thesis. Furthermore, the empirical analysis conducted was grounded in robust statistical methods, ensuring the accuracy and dependability of the results.

Navigating the complexities of budgeting within different organizational contexts, it is important to acknowledge that there is no universally 'correct' approach. Budgeting methods can vary significantly based on industry, company size, and specific strategic objectives. Therefore, ensuring the validity of this research was a supreme concern. To address this challenge, a multi-faceted approach was adopted. The qualitative interviews conducted with key decision-makers at Company X provided invaluable insights into the current state of budgeting and the forthcoming improvements. These interviews followed a structured protocol designed to capture a broad spectrum of perspectives. By maintaining consistency in the interview process, the validity of the responses was upheld. Furthermore, the thematic and empirical analyses employed in this paper were conducted with meticulous attention to detail. Thematic analysis allowed for the identification of recurring patterns and themes within the data, reinforcing the validity of the findings. Additionally, empirical analysis provided support for the qualitative insights, offering a well-rounded view of the budgeting process.

This thesis answers the academic inquiry, holding multifaceted relevance both personally and professionally. At the core, it serves as a corner stone in the author's personal and professional growth journey. Aspiring to transcend the realm of an 'average employee,' the author embarked on a quest to not only accumulate knowledge but also to harness it strategically. The pursuit of managerial accounting principles, as exemplified in this research, has illuminated a path toward personal excellence and career advancement. Beyond personal growth, the significance of this thesis extends to the broader context of corporate finance. The exploration of Company X's budgeting process, though tailored to a specific organization, unveils universal insights applicable to other SMEs. Decision-makers in similar settings can draw parallels and extract valuable lessons from this research. By resonating with the principles and recommendations outlined herein, they too can aspire to refine their budgeting processes. Furthermore, this work contributes to the evolving landscape of finance and managerial accounting. It offers a practical demonstration of how research can bridge the gap between theory and application, making academic knowledge actionable in real-world scenarios. The recommendations proposed in this thesis hold the potential to inspire change not only within Company X but also across industries where budgeting is a critical facet of financial strategy.

In essence, this reflection on the reliability, validity, and relevance of this thesis underscores its commitment to fostering personal and professional growth. Simultaneously, it sheds light on the broader impact of this research, emphasizing its potential to catalyze positive change within organizations and the field of finance itself. As the financial landscape continues to evolve, so too does the author's journey toward continued learning and success. This revised text provides a more detailed and academically sound discussion of reliability, validity, and relevance in your thesis. It strengthens the connection between these elements and the broader significance of your research.

5.3 Reflection on Learning

In embarking on this thesis, the author's ambitions and personal goals were crystal clear. It was evident that settling for mediocrity as an employee would not be sufficient enough. To achieve growth and stand out, a deliberate path forward was necessary. The author's intention was never centered around presenting numerical data in this thesis, as such an approach did not align with the desired outcomes. Rather, the exploration of a company's budgeting process was chosen due to its potential to fulfill these ambitions.

During the research journey, the author delved deep into the complexity of the organization's budgeting process, leading to a profound realization. Budgeting was revealed to be more than just numbers, it encompassed strategic decisions that wielded influence over the company's financial destiny. This realization marked a pivotal moment in the author's learning journey.

The journey also led to the formulation of practical recommendations for Company X, aimed at improving their budgeting process. These recommendations were not merely theoretical but rooted in insights gained from empirical research, interviews with decision-makers, and active monitoring of the process of budgeting in the process of the Company X.

Managerial accounting, while often perceived as tedious and challenging, emerged as a wellspring of valuable insights. Understanding managerial accounting transcended numbers, it bestowed the author with skills of substantial worth. Additionally, interactions with decision-makers provided insight into the profound knowledge required in managerial accounting. This experience underscored that even seemingly complex subjects can be mastered with dedication and resource allocation. Solidifying understanding of the budgeting process emerged as a cornerstone for career advancement for the author. Familiarity with various budgeting methods, tools, and mindsets was recognized as invaluable, even though the journey itself posed challenges to the author.

The research shed light on the complexity of implementing significant organizational changes. The recommendations presented a viable roadmap for improvement, yet the author acknowledged that substantial changes forces not just commitment from decision-makers but also alignment with the company’s overall strategy. This thesis signifies a dual success, reflecting both personal growth and offering substantial recommendations to Company X for improving their budgeting process. Moreover, the journey highlighted the interdependent connection between personal and professional development.

The reception and implementation of these recommendations remain an open question. It is evident that the most significant changes are also the most challenging, demanding commitment from decision-makers, the entire company, and a comprehensive review of resources and long-term strategy.

In essence, this reflection on learning mirrors the author commitment to personal and professional growth. It shed light on how the exploration of the budgeting process, despite its challenges, enriched the author's understanding and positioned him to make meaningful contributions to his career and the enhancement of Company X's budgeting process. Just as the financial world continually evolves, so does the author's path toward ongoing learning and success.

5.4 Further Development Ideas

While this thesis provides valuable insights into Company X's budgeting process and offers actionable recommendations, it opens the door to several promising directions for future scholarly exploration.

One avenue for further development involves continued author involvement, either in the pursuit of a master’s degree or as part of ongoing professional growth. This trajectory necessitates collaboration with Company X's decision-makers to review and contextualize the findings and recommendations presented in this thesis. Subsequent steps would entail identifying which of these recommendations align with the company strategic vision, assessing their feasibility, and weight their appropriateness within the organizational context. Recommendations that entail more extensive changes to Company X's overall strategy would require a postapproval integration process.

Alternatively, future development could manifest through a collaborative approach involving a different researcher or academic. This approach would entail close engagement with Company X's decision-makers to prioritize recommendations based on their significance and feasibility. The process may commence with an initial survey of potential recommendations and evolve into in-depth discussions to identify areas warranting further supervision. Such an approach may evolve the thesis from a pure research focus to a hybrid model that combines research and project-based dimensions.

Additionally, a follow-up thesis grounded in project-centric could be contemplated. Within this framework, decision-makers assume an active role in determining which recommendations they wish to implement. The author of the follow-up thesis would then undertake the responsibility of delivering on these specific initiatives, bridging the gap between research and practical execution.

Eventually, while this thesis has conducted a comprehensive exploration of the complexity of Company X's budgeting process, it also serves as a springboard for future inquiry and development. Armed with a more profound comprehension of the budgeting process, prospective investigations could adopt a more targeted, forward-looking, and impactful position.

References

Bogsnes, B. 2016. Implementing Beyond Budgeting: Unlocking the Performance Potential. 2nd ed. Wiley. New Jersey.

Brigham, E. F. & Houston, J. F. 2007. Fundamentals of Financial Management. 11th ed. Cengage Learning.

Bryman, A. & Bell, A. 2015. Business Research Methods. 4th ed. Oxford University Press. Oxford.

Cangiano, M., Curristine, T. & Lazare, M. (eds.) 2013. Public Financial Management and Its Emerging Architecture. International Monetary Fund. Washington, DC. E-book. URL: https://www.elibrary.imf.org/downloadpdf/book/9781475531091/9781475531091.pdf. Accessed: 14 October 2023.

Collier, P. M. 2015. Accounting for Managers: Interpreting Accounting Information for Decision Making. 5th ed. Wiley. New Jersey. E-book. URL: https://www.perlego.com/book/3865575/accounting-for-managers-interpreting-accounting-information-for-decision-making-pdf. Accessed: 20 June 2023.

Creswell, J. W. & Poth, C. N. 2018. Qualitative Inquiry and research Design: Choosing Among Five Approaches. 4th ed. Sage. Los Angeles.

Dyer, W. G., Dyer, J. H. & Dyer, W. G. 2013. Team Building: Proven Strategies for Improving Team Performance. 5th ed. Jossey-Bass. San Francisco.

Drury, C. 2018. Management and cost accounting. 10th ed. Cengage Learning. Hampshire.

Epstein, M. J. & Buhovac, A. R. 2014. Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts. 2nd ed. Greenleaf Publishing. Sheffield.

Hansen, D. R., Mowen, M. M. & Heitger, D. L. 2021. Cost Management. 5th ed. Cengage Learning.

Hariharan, N. K. 2020. Rethinking Budgeting Process in Times of Uncertainty, 7, 5. URL: https://www.researchgate.net/publication/354282181_Rethinking_Budgeting_Process_in_times_of_Uncertainty. Accessed: 20 May 2023.

Horngren, C. T., Sundem, G. L., Burgstahler, D. & Schatzberg, J. 2022. Introduction to Management Accounting. 17th ed. Pearson. Harlow.

Jensen, M. C. 2001. Corporate Budgeting Is Broken – Let's Fix It. Harvard Business Review, 79, 10, pp. 96-101. URL: https://hbr.org/2001/11/corporate-budgeting-is-broken-lets-fix-it. Accessed: 23 May 2023.

Kaplan, R. S. & Norton, D. P. 2010. The Execution Premium: Linking Strategy to Operations for Competitive Advantage. The Accounting Review, 85, 4. pp. 1475-1477. URL: https://doi.org/10.2308/accr.2010.85.4.1475. Accessed: 24 May 2023.

Libby, T. & Lindsay, R. M. 2010. Beyond budgeting or budgeting reconsidered? A survey of North-American budgeting practice. pp. 56-75. URL: https://cpb-us-w2.wpmucdn.com/u.osu.edu/dist/8/36875/files/2016/12/Libby-Lindsay_budgeting_survey-17bvsph.pdf. Accessed: 3 June 2023.

Merchant, K. A. & Van der Stede, W. A. 2012. Management Control Systems: Performance Measurement, Evaluation and Incentives. 2nd ed. Pearson Education. Harlow. URL: https://books.google.ee/books?id=ymY2cQN3iEMC&printsec=frontcover&hl=et#v=onepage&q&f=false. Accessed: 22 May 2023.

Neely, A., Adams, C. & Kennerley, M. 2002. The Performance Prism: The scorecard for Measuring and Managing Business Success. Financial Times/Prentice Hall. London.

NetSuite s.a. NetSuite Planning and Budgeting. URL: https://www.netsuite.com/portal/products/erp/financial-management/financial-planning.shtml. Accessed: 22 October 2023.

Noreen, E. W., Brewer, P. C. & Garrison, R. H. 2011. Managerial Accounting for Managers. 2nd ed. McGraw-Hill. New York.

Nowell, L. S., Norris, J. M., White, D. E. & Moules, N. J. 2017. Thematic Analysis: Striving to Meet the Trustworthiness Criteria. International Journal of Qualitative Methods, 16, 1. URL: https://doi.org/10.1177/1609406917733847. Accessed: 26 June 2023.

Otley, D. 2016. The contingency theory of management accounting and control: 1980-2014. 31, pp. 45-62. URL: https://doi.org/10.1016/j.mar.2016.02.001. Accessed: 20 May 2023.

Patton, M. Q. 2002. Qualitative Research & Evaluation Methods. 3rd ed. Sage. Thousand Oaks.

Robinson, M. 2007. Performance Budgeting: Linking Funding and Results. International Monetary Fund. Washington, DC. URL: https://www.elibrary.imf.org/downloadpdf/book/9780230553569/9780230553569.pdf. Accessed: 15 October 2023.

Ross, S., Westerfield, R. & Jordan, B. 2022. Fundamentals of Corporate Finance. 13th ed. McGraw-Hill. New York.

Scarborough, N. M. 2012. Effective Small Business Management: An Entrepreneurial Approach. 10th ed. Pearson. New Jersey.

Schaltegger, S. & Burritt, R. 2017. Contemporary Environmental Accounting: Issues, Concepts and Practice. Routledge. New York. URL: https://haaga-helia.finna.fi/Record/nelli21.2550000001040358?sid=3066350512. Accessed: 15 June 2023.

Shim, J. K., Siegel, J. G. & Shim, A. I. 2012. Budgeting Basics and Beyond. 4th ed. Wiley. New Jersey. E-book. URL: https://haaga-helia.finna.fi/Record/nelli21.2550000000052996?sid=3066615256. Accessed: 16 June 2023.

Schmidt, J. s.a. Top-Down Budgeting. URL: https://corporatefinanceinstitute.com/resources/fpa/top-down-budgeting/. Accessed: 12 October 2023.

SketchBubble s.a. Budgeting Process. URL: https://www.sketchbubble.com/en/presentation-budgeting-process.html. Accessed: 9 September 2023.

Van der Stede, W. A. 2011. Management Accounting Research in the Wake of the Crisis: Some Reflections. European Accounting Review, 20, 4, pp. 605-623. URL: https://doi.org/10.1080/09638180.2011.627678. Accessed: 20 June 2023.

West, M. A. 2012. Effective Teamwork: Practical Lessons from Organizational Research. 3rd ed. Wiley. Chichester.

Weygandt, J. J., Kimmel, P. D. & Kieso, D. E. 2011. Financial and Managerial Accounting. 1st ed. Wiley. Amherst.

Wildavsky, A. B. & Caiden, N. 2001. The New Politics of the Budgetary Process. 4th ed. Pearson. Harlow.

Zutter, C. J. & Smart, S. B. 2019. Principles of Managerial Finance. 15th ed. Pearson Education Limited. New York.

Appendices

Appendix 1. Interview Questions

IQ: What are the key stages and components of the current budgeting process?

1. Could you describe the current budgeting process?
2. What are the main parts of the current budgeting process?
3. How do you decide where to allocate resources?
4. Do you have any rules or guidelines/written documentations for budgeting?
5. How do departments and management work together during budgeting?
6. How do you incorporate sustainability considerations into the budgeting process?

IQ: How do these key stages and components contribute to the overall effectiveness of budget management?

1. How does your budgeting process help meet financial goals?
2. How does your process control costs and maintain financial discipline?
3. How does your budgeting process support decision-making?
4. What are your success indicators for budget management?
5. How has your budgeting process impacted the company's financial outcomes?
6. How do your budgeting practices contribute to long-term CSR?

IQ: What are the most common challenges and bottlenecks encountered during the budgeting process?

1. What challenges do you face during budgeting?
2. Can you describe any bottlenecks in your budgeting process?
3. How do these challenges affect budget management efficiency?
4. How do these challenges impact communication and collaboration?
5. Have you tried to overcome these challenges before?
6. What are the main obstacles in incorporating CSR into your budgeting process?

IQ: How will modifications in the budgeting process address previously identified challenges and bottlenecks to enhance budgeting process efficiency?

1. What solutions have you considered for identified budgeting challenges?
2. How are you modifying the process to improve budgeting communication?
3. Which best practices are you integrating to address budgeting challenges?

4. Which metrics will you use to evaluate budget modifications?
5. What resources are crucial for implementing budget changes?
6. How will your modifications address sustainability/CSR in budgeting?

IQ: How can new technologies, tools, and methodologies (such as AI, data analytics, and zero-based budgeting) be integrated into the budgeting process to optimize resource allocation and enhance decision-making?

1. Are you using any advanced technologies in your budgeting process?
2. How could AI and data analytics help your budgeting process?
3. What are your thoughts on using zero-based budgeting?
4. What challenges do you expect when adopting new technologies and methodologies?
5. How do you plan to train employees to use these new tools and methods?