

Transformations of Budgeting Practices: Evidence from Czech Republic

Traditional budgeting and planning methods have been widely used as one of the fundamental management techniques across different types of organizations. In last two decades, managers and academics observed the growing dissatisfaction with these traditional budgeting concepts, which are based on annual bases and control functions. Traditional budgeting methods are very often criticized for the inflexibility and strong focus on resource allocation. Criticism was focused as well on the problems related with the use of tradition budgets as a tool of management control. Many research studies points at the necessity of adopting more sophisticated budgeting methods, which could contribute to better performance management and control. Current trends lie in adopting flexible, decentralized budgeting systems that are focused on the use of key performance indicators (KPI).

In a recent review, Hansen et al. (2003) observe, that the dissatisfaction with budgeting in practice is occurring on two fronts: those that wish to abandon budgeting altogether and those that wish to improve it. Hope and Fraser (2003) presented several studies of European companies which successfully abandoned the traditional budgeting systems and replaced it by performance measurement system based on performance indicators. On the other hand, Ekeholm and Wallin (2000) report that only 15% of the Finnish companies they surveyed indicated the intention to abandon the traditional way of budgeting whereas 61% aimed to improve the current budgeting system and 24% reported they are not planning any changes in used budgeting system.

The paper presents the results of the survey of Czech enterprise budgeting practices, performed in 2014-15, which focuses on the current trends in budgeting practices in comparison with worldwide trends.

Authors had investigated how the Czech firms deals with operational budgets. Performed research showed the significant similarity of the Czech budgeting practices with the North American ones. In conclusion, the results showed that the traditional use of the budgets for control will not be eliminated in near future. Most firms in our sample planned to improve their budgeting systems and not to abandon them. In our sample we had also observed the significantly higher portion of the firms, which use the budgets for control in Czech sample than in North American sample, which could be explained as the lower adoption rate of modern performance management methods in Czech environment. Interesting result is also the lower portion of firms in Czech sample which plan any changes in the budgeting system. This could lead into assumption, that the satisfaction with the traditional budgeting in Czech conditions is higher due to the lower perception of the traditional budgets limitations. On the other hand, the portion of the firms which plan to abandon the use of the budgets for control is higher in the Czech sample. Absolute frequency of this type of answers is too low for any assumptions.

Following part of research had verified the frequent opinions on the unpredictability of a business environment. Subsequently, the links between budgets and corporate strategies were looked upon. This reflects the criticism focused on the weak links of budgets to such strategies. Finally, an examination was conducted on links between the budgets and performance targets. This section was based on the negative practice of using budgets as a “fixed performance contract”.

This research has failed to prove the statements related to the inflexibility of the budgeting and weak linkage of the budgets to the strategy. However, the research has proved another statement related to the low level of budget use as the performance targets. These results point at the fact that some of

the tendencies in budgeting practices that are observed worldwide are not that strong in the Czech conditions.