Chapter 1

The Uses of Budgeting

1. Introduction

The official terminology of the Chartered Institute of Management Accountants (2005 p. 5) provides the following definition of a budget: ‘Quantitative expression of a plan for defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses; assets, liabilities and cash flows.’ Textbooks provide similar definitions. For example, Seal et al. (2006, p. 494) state that: ‘A budget is a detailed plan for the acquisition and use of financial and other resources over a specified time period. It represents a plan for the future expressed in formal, quantitative terms.’ For Anthony and Govindarajan (2004, p. 409): ‘*An operating budget usually covers one year and states the revenue and expenses planned for that year*.’ (emphasis as in original)

There is general agreement amongst management accounting writers that budgeting is important, pervasive and forms a key element in most organisational control systems. Merchant and Van der Stede (2003, p. 306) see budgeting as a ‘near-universal organizational practice’ and, quoting Umapathy (1987, p. 140) as the most recent survey available, note that the vast majority of responding firms had a formal budgeting system; of these, 91% reported that their budgets were for 1-year period. This is consistent with recent work in the UK by Dugdale et al. (2006). Interviews with financial controllers/directors in 41 companies revealed only one that did not have budgeting processes. The other 40 companies prepared budgets for a period of 1 year and most (37) did not amend the budget during the financial year.

The prevalence of budgeting and the general agreement among textbook writers that it is important certainly suggests that it is useful and, in this chapter we identify the key uses of budgeting. We provide a short historical review of the development of budgeting and argue that, by the 1920s, three key uses of budgeting had emerged: authorisation, planning and control. Later, authors noted that the use of budgets for planning and control led almost automatically to their role as a tool of communication and coordination and it was suggested that the setting of budget targets could also help to motivate managers.

We begin by describing the introduction of budgeting in nineteenth century UK government and then its emergence in private sector companies in the 1920s.

2. Public Sector Budgeting

Budgets, in the sense of making forecasts of and plans for future events, have been around for a long time. Solomons (1952. p. 45) even goes back to biblical times to find the example of Joseph, in Egypt, making a budget of corn supplies.

However, in modern times, the use of budgeting can be traced to its institutionalisation in nineteenth century government. Roseveare (1973) saw the UK Treasury gaining authority as early as the seventeenth century but modern government budgeting had to wait till the nineteenth century. Even the 'modest objectives' of accurately assessing and collecting revenue and honestly disbursing and accounting for expenditure were not easy in the face of 'tenure for life' in English civil administration; connivance in the misappropriation of public funds and the politicisation of Parliamentary Accounts Commissions.

Only after the Exchequer and Audit Departments Act of 1866 could Roseveare speak of the completion of the 'circle of control' and the emergence of positive principles of financial management. Now there was:

> *(a) a technique of estimate, by which the annual requirements of forthcoming public expenditure could be accurately assessed, and (b)… parliamentary appropriation, by which funds could be strictly allocated to these needs. It also required (c) an independent agency (the reformed Exchequer) empowered to issue these appropriated funds to (d) responsible, non-political paymasters, disbursing funds on behalf of government departments. Finally it required (e) effective machinery for the independent audit of this expenditure and (f) the submission of the balanced, annual account to the scrutinizing committee of the House of Commons. (p. 47)*

Thus, budgeting became a key tool in planning public expenditure and authorising the expenditure of public funds by non-political paymasters acting on behalf of government departments.

In the US, public budgeting lagged than in Europe but, in the late nineteenth century, municipal budgets were developed in New York, Philadelphia, Boston, Chicago and other large cities. Then, between 1911 and 1919, 44 states developed budgets and the budget and accounting act of 1921 mandated a national budget.[1]

3. Emergence of Budgetary Control in the Private Sector

The late nineteenth century and early twentieth centuries saw the development of budgeting in the public sector and this was also a very fertile period in the history of organisational and management theory. The late nineteenth century saw the birth of scientific management and what Solomons (1952, p. 17) called '*The Costing Renaissance*'. These developments and the emergence of budgeting in the public sector provided the background against which private sector budgetary control emerged. Interest in costing developed apace in the last years of the nineteenth and early years of the twentieth century and interest in budgetary control in the private sector followed in the wake of this with the 1920s being a particularly fruitful period in the development of budgeting theory.

Quail (1997, p. 619) referred to: 'J.O. McKinsey's pioneering work *Budgetary Control* [that] appeared in 1922.' And he quoted Elbourne (1926, p. 11): 'By 1926 an English observer could say "of all the many forces at work in American business today there is nothing so new, so arresting and so much in men's minds as Budgetary Control" '. Hayes (1929, p. 106) noted that budgeting in the US had been confined 'almost entirely' to government bodies but: 'A decade ago budgeting for business enterprises began to attract and to hold the attention of business executives.' And Harrison (1930) was enthusiastic: 'The vivid interest which accountants are taking today in budget and the predetermination of profits and costs is one of the most significant and encouraging signs of the times,...' (p. 24).

Already, in the 1920s, one of the authorities on the subject, McKinsey (1927) was able to spell out the outline of a budgetary control system:

> *[Budgets] …are a statement of future accounts expressed in terms of unit responsibility…It is essential that that the budgets be made in such form that they will present a statement of future accounts, for otherwise it is difficult, if not impossible, to make such comparisons between the estimated and actual*

---

[1] *Source*: Budgetary Control in Manufacturing, p. 5, National Industrial Conference Board, 1931.

results… The budget should be expressed in units of responsibility because responsibility must be placed upon specific individuals… (p. 363)

Comparison of this definition with those in Section 1.1 reveals that budgets and budgeting have had similar forms and purposes for almost a century. Budgeting in the private sector quickly became a means of assigning financial responsibility and accountability to managers and a means of checking whether actual results were in line with those budgeted for each part of the organisation. Very soon 'budgeting' became 'budgetary control' and when linked with clearly specified organisation structures budgetary control was a means of enforcing accountability. The early literature saw budgeting as not only providing a plan of action but also a check on progress against that plan. And specific individuals were to be held responsible and accountable for delivering the plan. The themes of feedback control and hierarchical, delegated responsibility rapidly became pervasive in the budgeting literature.

Budgetary control developed alongside the other child of scientific management, standard costing. Although the National Association of (Cost) Accountants in the US noted that their initial development was largely separate, it was later realised that:

…both were merely applications of the same management philosophy and they were complementary parts of a complete program of cost control. (N.A.(C.)A. Research Series 11 (1 February 1948 quoted by Horngren, 1962, p. 180))

Harrison (1930) spelled out this common philosophy:

It may be asked what objective can we set up in our books for the executive. The answer is obvious: whereas the objective of the superintendent is decreased costs of production, that of the executive is profits. …

No man can realize his fullest possibilities, whether he be a five-dollar-a-day trucker in the factory or a fifty-thousand-dollar-a-year executive, unless he has before him at all times (1) a carefully determined objective, (2) record showing the relation between accomplishment and this objective, and (3) if he has failed to realize his objective, information as to the causes of such failure. Standard costs furnish the factory superintendent and the factory foreman with this information as regards factory costs, and standard profit or budget systems give the executive this information as regards profits. (p. 28)

Thus standard costing and budgetary control provided a management philosophy that revolved around setting out a plan and holding individuals responsible, through clear delegation, for delivering the plan.

In the mid-twentieth century, budgeting was seen as an extension of control outside the factory. The Institute of Cost and Works and Works Accountants (ICWA)

(1950) noted that both budgetary control and standard costing require: predetermined standards/targets; measurement of actual performance; calculation of variances between standard/target and actual and follow-up action. The techniques were then differentiated by their focus of application:

> *By common usage the application of these principles to the operation of the business as a whole, or of its departments, is termed Budgetary Control, whereas the application of these principles to the detailed production operations and products is termed Standard Costing. (ICWA, 1950, p. 7)*[2]

There are plenty of examples of the emphasis on *control* in budgetary control. For example, Willsmore (1932) in what was claimed to be the first British book on budgeting argued that: '…budget control entails more than a mere forecast of the future. It involves a concerted plan of action based on a careful consideration of all relevant tendencies and factors, and it is, in itself, a complete system for controlling costs and preventing waste." (Preface to first edition, 1932, reproduced in Willsmore, 1949, p. viii, quoted by Boyns, 1998)

Similarly, Peirce (1954, p. 60) suggested that budgeting and control are inseparable:

> *I am referring to control, which is the eternal complement of planning. Neither one is useful without the other, and to budget even the smallest unit of a business, implies the presence of control also.*

The ubiquitous use of the term budgetary *control* in twentieth century texts clearly meant what it said. When budgeting systems were introduced they reflected a particular approach to management. This was an approach born of the scientific management movement where managers were expected to know how to get things done the right way and to ensure that they were done that way. The key aspects of budgetary control are, first, the comparison of actual results with plan and, second, the delegation of responsibility and authority. We consider these in turn.

4. Feedback Control and Flexible Budgets

Boyns (1998) notes that Solomons (1952, p. 48) traces the idea of flexible budgeting to an article by Henry Hess in 1903. However, the idea does not appear to have

---

[2] The ICWA report sees budgetary control and standard costing as inter-related but not absolutely inter-dependent. Budgetary control might be appropriate in industries where standard costing would not make sense. And standard costing could be applied without a formal system of budgetary control. The National Industrial Conference Board survey (1930) had indeed noted that: 'Numerous companies classified in the survey as having no budget did have standard costs in their operating departments… [But standard costs only] afford a basis for currently measuring certain operations. They do not forecast trends or constitute a program.'

been pursued in earnest until the late 1920s. Ralph E. Case (who had been trained by Harrison) then worked with a group of engineers who developed a system of budget allowances to a standard cost system at the Westinghouse Company in 1928. (Sizer, 1968, p. 26, quoted by Boyns, 1998, p. 268)

The emphasis on 'control' pervades the development of 'flexible budgets' for the budget is flexed *after the event* when the actual level of output and sales is known. The point is to facilitate a meaningful comparison of resources *used* with what *might have been expected* for the given level of output/sales.

Standard cost systems allow this to be easily achieved for direct costs such as materials and labour by multiplying the unit standard cost by actual volume achieved. However, for overhead costs, incurred both inside and outside the factory, matters can be much more complex. As Horngren (1962) notes: '… (1) the size of individual overhead costs usually does not justify elaborate individual control systems; (2) the behaviour of individual overhead items is either impossible or inconvenient to trace to specific lots or operations; (3) various overhead items are the responsibility of different people; and (4) the behaviour of individual overhead items differs drastically'. (p. 193)

The last point is the focus of most textbook treatments. It is presumed that overheads behave as semi-fixed costs that can be split into their fixed and variable components and then it is possible to calculate the cost for a given level of activity by adding the variable cost allowance (volume × variable cost per unit) to the budgeted fixed cost.[3]

5. Responsibility Accounting

We have already seen that budgeting facilitates the delegation of authority and responsibility and more references could be found. For example, delegation of responsibility was implicit in Harrison's (1930) example of a company that supplied radio spares. He wrote: 'A number of factors contributed to the satisfactory showing of the business referred to, but, without question, the primary reason for the success of the company was the fact that a definite realizable objective was set for every responsible member of the organization.' (pp. 29–30)

[3] Of course, it must be remembered that the categorisation of costs as either fixed or variable is an over simplification. In practice both may be 'step' costs – but fixed costs remain fixed within a 'relevant range' of activity levels and variable costs, though often stepped, can be approximated by assuming that they are proportional to level of activity. Other costs can have a more complex relationship to level of activity but, in principle, such costs can be accommodated within flexible budgeting so long as the behaviour is well understood.

Evans-Hemming (1952) linked standard costing, (flexible) budgetary control and responsibility accounting:

> *One essential feature of Flexible Budgetary Control and Standard Costs is the decentralisation of cost responsibility to departments, and therefore to departmental managers…As a plan is prepared for each department the departmental executive is consulted, and by this means his interest is aroused in operating his department according to the plan laid down, this interest being sustained by the continuous measurement of his actual performance. (pp. 2–3)*

Budgetary control provides not only a standard by which the whole business can be judged it also provides a standard for each separate department and thus a means of evaluating the performance of each departmental manager.

Similar sentiments were expressed in the ICWA's (1950) publication 'An Introduction to Budgetary Control Standard Costing Material Control and Production Control'. This report, planned in 1946/47, was based on contributions from members of the Institute and a draft submitted to the 19th National Cost Conference in 1948. The principles of authority, responsibility and controllability come through strongly. For example, the section dealing with the *Production Cost Budget* advises that: '…it be analysed departmentally according to responsibility. Every item of cost then becomes the responsibility of a person whose duty is to ensure that expenditure is controlled and does not exceed the allowance prescribed'. The section goes on to advise that items should only be included in a person's budget if: '…that expense is actually incurred by departments or functions under his control…' Budgetary control could be: '…an instrument of management policy whereby the extension of the scheme to lower levels of management enables top management to decentralise responsibility and centralise control'. (p. 8)

In the second half of the twentieth century, budgetary control and responsibility accounting was *de rigueur* in management accounting texts. In an echo of McKinsey's earlier comment, Horngren (1962) states that: '*Budgets are basically forecasted financial statements.*' (p. 168, emphasis as in original). This facilitates the comparison of actual results with budget. And responsibility accounting can be achieved through the nesting of organisational responsibilities. Horngren's example shows how controllable overhead items in the Assembly Foreman's report appear as a single line in the superintendent's report. The controllability principle is central: only items subject to the manager's control should be included in their reports.

Control, feedback and hierarchical responsibility accounting remain key themes in late twentieth century texts. Miller (1982) goes so far as to suggest that, if necessary, the organisation should be restructured to accommodate the efficient operation of budgetary control. 'Where significant interdependencies are present, the organizational structure should be examined and restructured with the purpose of either centralizing interdependent segments or redefining their controllable inputs and outputs.' (pp. 35–36)

6. A Note on Definitions

Our review of the historical origins of budgeting refers to planning and control, and we assume that the reader has a feel for what is meant by these terms. However, careful consideration of terms like planning reveals that its definition can be rather elusive. Mintzberg (1994) discussed five different views of strategic planning. First, there is a school of thought that sees planning as a very broad term that refers to future thinking. Unfortunately, this definition would include most human activity and would therefore be unhelpful. Second, planning could refer to controlling the future: designing the future or controlling change in the environment. Unfortunately, again, this would encapsulate most human activity since virtually everything that we do is oriented to shaping the future, including, for example, deciding what to have for lunch. Third, planning is sometimes seen as decision making. For some authors planning is about choosing (deciding) between alternatives and this involves identification of options, their analysis, choice and identification of the actions/resources needed to achieve the desired goal. For Mintzberg, this definition reduces to the first. for it is difficult to envisage human activity that does not involve making decisions and 'planning again becomes synonymous with everything managers do' (p. 10). Fourth, planning is integrated decision making. Although apparently similar to the third definition this is more distinctive with its emphasis on organising, grouping or batching decisions. Finally, Mintzberg introduces the key idea of formalisation and defines (strategic) planning as 'a formalized procedure to produce an articulated result, in the form of an integrated system of decisions'. (p. 12)

For Mintzberg this definition of planning, with its emphasis on formalised procedure and explicitly articulated results, is the one that most closely corresponds with what organisational planners actually do. Although it might be too restrictive for some authors and some purposes, it serves as an operational definition of organisational planning. Mintzberg's conclusion allows us to see more precisely why budgeting is almost invariably associated with planning. If organisational planning in practice means formal procedure and explicit statement, then budgeting processes fulfil both criteria to perfection and the taken-for-granted view that budgets are useful aids to planning is easily rationalised.

'Control' also poses problems of definition and Giglioni and Bedelan (1974) noted that several authors had pointed out that 'control' can mean different things depending on context. In organisational theory, control tends either to mean control over subordinates or '…the evaluation of the desired outcome of an activity and the making of corrections when necessary' (p. 293). Giglioni and Bedelan ignored control where it refers to the directing of subordinates and concentrated on control as a cycle of plan, do, compare and correct. Their review of writings in the period 1900–1972 revealed a general view among management writers such as Emerson, Diemer, Fayol, Robinson and Urwick: control involved a comparison of present performance with previously set standards/expectations/direction and knowledge of the means to correct divergences.

Giglioni and Bedelan's distinction between control as directing and control as evaluation/correction was also important to Otley and Berry (1980). They noted that, in the many possible uses of 'control', the 'most common idea it suggests is dominance' (p. 231) but their focus would be on the '…second strand of meaning that emphasises the idea of regulation and the monitoring of activities… In this paper the term "control" will be used in its full cybernetic sense of both monitoring activities and then taking action'. (pp. 231–232). Otley and Berry employ Tocher's analysis of cybernetic control based on an objective, a means of measuring results, a predictive model and choice of alternatives. They draw out issues such as whether an organisation can have objectives since they must be set by individual(s); that predictive models will under-specify operations and a trade-off is needed between efficiency and adaptability in such models; that measures are needed in relation to both the dimensions of the objective and also the variables in the predictive model(s) and the range of actions available: changing system inputs, changing the objective, amending predictive model(s) and changing the system itself.

These considerations show why budgeting systems are associated with the idea of control, particularly the correction of deviations from plan. No matter how *objectives* may be set or negotiated, they usually emerge through explicit budget statements. Links between budgeting and the accounting system implicate budgets with the *measurement* of revenues and expenses. Budgets embody the outcomes of *predictive models* for expense and investment. And the budgeting system provides the instrument that allows *actions* such as resetting objectives and redesign of the system to be articulated. Thus, while most managers would simply observe that budgets can be used for control, analysis of the literature, especially that which sees control as monitoring and correcting, confirms that there are good reasons to associate budgetary systems with organisational control.

Separately we can reflect that budgets can also be implicated in control as dominance or direction. Lukes (1974) identified three dimensions of power: as imposing one person's will over another's; as controlling the agenda; and through shaping beliefs and values. Budgeting can be implicated in all these dimensions. In the next chapter we will see that budgets can be used to pressure subordinates and to depersonalise management processes. Second, supervisors or more senior managers may follow secretive budgeting processes, using these processes to control the agenda.

Third, the budgeting system can help to shape organisational values with its explicit focus on the importance of profit and implicit prioritising of shareholder interests.

7. The Uses of Budgets

Our review of the development of budgeting systems has emphasised two key uses of budgets, in planning and control. The systematic nature of budgeting and its formal statement through the accounting system in terms of revenue, expense and responsibility codes ensure the association of budgeting with planning. And the design of budgeting systems to facilitate the feedback loops beloved of cybernetics with comparisons of actual results with budget benchmarks by responsibility centre means that budget processes are readily associated with organisational control.

To these primary uses a number of secondary uses of budgets have been added and these seem to follow naturally from the main purposes and structure of budget systems. If what distinguishes budget-based planning from more widely drawn definitions of planning is the emphasis on process that ensures organisational direction then it is easy to see why budgeting is an aid to communication within organisations and an aid to coordination of organisational activities. And, if feedback control through budgets facilitates the comparison of agreed targets with actual results, neatly aligned with the responsibilities of cost or profit centre managers, then the use of budgets in evaluating managerial performance is also easily understood.

These considerations have led late twentieth and early twenty-first century management accounting texts to general agreement on the uses of budgets and we can gain a flavour of the consensus by reference to texts that have dominated in the US since the 1960s and in the UK since the 1980s. Anthony and Horngren were the first writers to codify managerial accounting and their US-based texts, now in their tenth and eleventh editions respectively, and written in partnership with co-authors, spell out the uses of budgets. For Horngren et al. (2000, p. 179):

> *Budgets are a major feature of most management control systems. When administered wisely, budgets (a) compel planning including the implementation of plans, (b) provide performance criteria, and (c) promote coordination and communication within the organization.*

While for Anthony and Govindarajan (2004, p. 411):

> *Preparation of an operating budget has four principal purposes: (1) to fine-tune the strategic plan; (2) to help coordinate the several parts of the organization; (3) to assign responsibility to managers, to authorize the amounts they are permitted to spend, and to inform them of the performance that is expected of them; and (4) to obtain a commitment that is a basis for evaluating a manager's actual performance*

Drury's (2004, p. 593) dominant UK text includes the following summary of budget uses:

> *Budgets serve a number of useful purposes. They include:*
>
> planning *annual operations*
>
> coordinating *the activities of the various parts of the organization…*
>
> communicating *plans to the various responsibility centre managers*
>
> motivating *managers to strive to achieve the organizational goals*
>
> controlling *activities*
>
> evaluating *the performance of managers*

Thus we have a view of what budgeting is and the uses that it performs. Budgets are usually set for a period of 1 year, identify projected revenues and expenses by both account code and responsibility centre and aid in planning, coordinating, communicating and controlling activities and in motivating and evaluating responsible managers.

8. The Take-up of Budgetary Control

As with many innovative management practices there is a danger that the reader is persuaded by the articulate views of theorists, that the technique, providing a solution to managerial problems, was eagerly and rapidly adopted across industry and commerce. This was not the case. In practice new techniques tend to be adopted cautiously and sporadically and companies that implement them sometimes backtrack, giving up the new methods and reverting to earlier practices.

As noted, forms of budgeting can be found in antiquity and examples can be found before the developments of the early twentieth century. Solomons quoted De Cazaux who, in 1825, devoted a chapter in his work on agricultural accounting to budgeting: 'Future conduct is to be traced from an account of successes and failures of the past. Thus one can determine one's needs in the coming year and can compare them with the resources one will have.' (De Cazaux, quoted by Solomons, 1952, p. 45) And Quail (1997) referenced Chandler (1977) in noting that 'Budgets had been in use on some U.S. railroads from 1881. Nevertheless, the use of budgeting in business does not seem to have become prevalent until at least the inter-war years.'

In America, the National Industrial Conference Board (1931) reported the extent of 'Budgetary Control in Manufacturing Industry' (title) based on a survey of 294 large US companies. Of the 294 companies replying to the survey, 162, or 55% had budgets of some kind. However, while most responding companies had budgets for sales, production, manufacturing expense, marketing expense and administrative expense, only 78 (48%) produced budgeted P&L statements and only 37 (23%) produced budgeted balance sheets (p. 18). Additionally the report acknowledges some bias in its concentration on large companies and, in addition, it was likely that companies employing budgets would be more likely to respond. Bearing in mind that the use of budgets by many of the surveyed companies was only partial, one can conclude that, although budgeting existed in a significant minority of US companies in 1930 it was neither prevalent nor, yet, sophisticated.

It is generally presumed that the take-up of budgeting techniques was slower in the UK than in the US. Boyns (1998) notes that US companies being larger than in the UK might be expected to adopt budgeting practices more extensively and, possibly, British practitioners might have been less inclined to report their practices than their US counterparts. Nevertheless, even in large British companies, Quail's (1997) study of pre-war budgeting does little to suggest that budgeting had been widely embraced before the Second World War. While Austin Motors and Lever Brothers developed budgetary control systems, the London Midland and Scottish Railway (LMS) and ICI did not. And the budgetary control system at Austin Motors 'disappeared without trace' (p. 625) when Austin died in 1941. Quail's analysis suggests idiosyncratic reasons for the use or non-use of budgeting in UK businesses. The technique allowed Herbert Austin to maintain control of the company even after creditors had forced it into receivership in 1921. On the other hand the traditional structure at LMS whereby committees of the board exercised tight control over departments might not have been conducive to the introduction of budgetary control. 'Delegations to managers to spend within budget figures would have appeared to be an invasion of directors' prerogatives.'

If the take-up of budgeting practices was patchy before the Second World War there is plenty of evidence that budgeting became much more commonplace thereafter. Sord and Welsch (1958) undertook interviews in 35 companies and received 389 usable responses to a mailed questionnaire to companies in the US and Canada. They found that 385 (91%) of their 424 companies prepared a detailed plan of operations and over 90% prepared reports for general and administrative expenses, sales reports and profit reports, comparing actual with budget in each case. More than 80% of their respondents prepared budget versus actual reports for distribution expense and factory overhead expense. (p. 207)

By the 1980s budgeting was a near universal practice in US firms. Umapathy (1987) received 400 replies to a question concerning the use of formal budget programs and 389 (97%) answered that they did use such programs. The nature of budgeting was also very uniform: 'Budgets are prepared annually and are broken down by quarters (79%) or by months (11%) in most firms.' (p. 82) Umapathy compared his results with those of Sord and Welsch and noted that budget manuals were used by 64% of responding firms compared with 49% in the earlier survey. Interestingly, however, Umapathy reported that the number of firms fully matching performance reports to organisational authority and responsibility had fallen from 56% to 18%. This was a matter of ‘grave concern’ although Umapathy noted that it could be a consequence of increasing organisational complexity.

Almost certainly the adoption of budgetary control systems in the UK lagged that in the US but, eventually take-up of the technique approached 100% in the UK. Drury et al. (1993) took it for granted that their respondents would be using a budgeting system concentrating not on *whether* a system existed but on *how* it was used. And Dugdale et al. (2006), in a field study of 41 manufacturing companies, reported that all but one had adopted budgeting systems.

9. Conclusion

We have seen how the theory of budgeting developed rapidly in the twentieth century. Emerging from the public sector and early twentieth century debates concerning costing and, especially, standard costing, budgeting became a key technique in the developing edifice of management accounting theory.

However, it was not budgeting itself that focused the minds of theorists and managers; it was budgetary control. Budgetary control together with its soulmate, standard costing, promised a scientific approach to management. Methods, times and costs could be specified; plans made and responsibilities delegated. Reporting designed to allow easy comparison of budget with actual results then permitted management by exception and closure of the feedback loop. Flexible budgeting would help to generate meaningful budget/actual comparisons and not only would reports be designed to facilitate actual/budget comparisons, the organisation itself might be designed to facilitate responsibility accounting.

Thus was budgetary control constructed as a cohesive approach to management. Not only did it offer a solution to the problems of operational management, it also facilitated decentralisation. Senior managers could construct an organisation with clearly defined areas of responsibility and the efforts of responsible managers could be monitored through the tool of budgetary control. The key link between budgetary control and the delegation of responsibility may have facilitated the growth of large businesses because, as businesses grew, it became necessary for central managers to delegate their authority and they therefore needed some means of ensuring that control was still retained. Quail (1997, p. 619) references Sloan (1986, Chapter 8) in noting that: ‘Without the central control which budgetary control based business planning gave, decentralization into divisions might well have been too risky.’

Budgeting promised a solution to some of the key problems of management and some of the uses of the technique became clear very quickly. Within a decade of the introduction of the technique in American business, budgeting had provided an institutionalised approach to planning, delegation via clear responsibility centres and accountability through systems that efficiently compared actual results with those budgeted by responsibility centre. In summary, budgeting was quickly seen as a key technique for *planning*, for *authorisation* and for *control*.

Despite the very persuasive arguments set out by those that promulgated the theory of budgetary control, take-up of the technique was not rapid and, where it was implemented, the technique was often criticised. Perhaps because of the emphasis on *control* in budgetary control, budgeting came to be associated with pressure and a managerial style that was at odds with the human-relations approach to management that emerged in the 1930s. And, in their 'Beyond Budgeting' critique, Hope and Fraser argue that the 'command and control' style of hierarchical organisation often associated with budgetary control was becoming inappropriate in late twentieth century competitive conditions.

We consider these issues in the next chapter.