

# **BEYOND BUDGETING IN SMALL AND MEDIUM-SIZED ENTERPRISES: REVIEW AND IMPLICATIONS FOR FUTURE RESEARCH**

A dissertation submitted to Auckland University of Technology in  
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## **ABSTRACT**

Beyond Budgeting (BB) approach criticises traditional budgeting as costly and inappropriate for today's dynamic and unpredictable environment (Lohan, 2010). The economic crisis in the year 2008 and the recent Covid-19 have forced the companies to utilise the principles of BB to act promptly without being tied up by traditional budgets (Falhem, 2020). However, empirical evidence on how BB is adopted and applied is widely lacking, and only a few large companies have practically implemented it. Small and Medium Enterprises (SME) have not yet been subjected by research on this specific topic. Therefore, the researcher aims to close the research gap by linking SME and the BB approach and practices.

The researcher has systematically reviewed the literature, examining the theories and extant evidence on SMEs' use of management control systems and developing empirically testable propositions to state BB's suitability for SME and encourage future research on this topic. As claimed by its proponents, the study finds that beyond budgeting is not suitable for small and medium-sized enterprises per se. Instead, it is proposed that these tend to utilise modified and partial forms of the approach upon context specifics.

The study's findings denote that specific contextual factors of SME, governance issues, life cycle-effects, and sectorial influence affect beyond budgeting's adoption. The paper developed two types of propositions. The first is proposed on the likelihood of BB adoption, whereas the second is propositions about the approach's situation-specific performance potentials. Therefore, it is supposed to be a fruitful discussion basis for future scholarly activities in this young research field. The paper closes by providing further possibilities for research to encourage expanding theoretical and practical knowledge.

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### **III. LIST OF ABBREVIATIONS**

BB Beyond Budgeting

CEO Chief executive officer

CFO Chief financial officer

E.g. For example

I.e. That means

ICT Information and communication technology

IT Information technology

LC Life cycle

MAC Management accounting and control

P. Page

SLR Systematic literature review

SME Small and medium-sized enterprises

VC Venture capital

## **ATTESTATION OF AUTHORSHIP**

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly define in the acknowledgements), nor material of which a substantial extent has been submitted for the award of any other degree or diploma of a university or other institute of higher learning.

Eshani Guruge

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## **CHAPTER 1: INTRODUCTION**

### **1.1 Introduction**

SME (Small and medium-sized enterprises) play an essential role in both developed and developing economies (Altman and Sabato, 2005; Ayyagari et al., 2007; La Porta et al., 1999). Consequently, SME related research is increasingly considered within business studies (Lavia López and Hiebl, 2015). Quantitative and qualitative evidence contributes to a more precise and greater understanding of the SMEs' distinction from large corporations and explains SME-specific behaviour and their drivers of success. Professionalization tendencies and the capability to change structures and adopt new ways of doing business are a prosperous and meaningful field in SME research (Foreman-Peck, 2013; Stewart and Hitt, 2012).

Notably, it seems justifiable to propose whether SME are likely and capable of performing a radical change in the way they steer the business towards a BB (Beyond Budgeting) approach. It is not scholarly explored whether SME would be keen for power decentralisation and create higher adaptive capability through organisational flexibility and transparency as per the BB principles (Bogsnes, 2016; Hope and Fraser 2000, 2003a). This paper also proposes significant differences between large corporations and their SME counterparts regarding applied BB systems (Becker et al., 2011). Since scholarly discussions or even comprehensive conceptual work are widely lacking, this study's attempt is so far a relevant contribution to the expansion of SME research. Specifically, the initial propositions about the BB suitability and performance potentials in SME shall encourage scholars to research this topic further.

Proponents of BB, for instance, Bogsnes (2016), Hope and Fraser (2003a) state that traditional budgeting procedures became institutionalised and inefficient, mainly in terms of time consumption and planning inaccuracies. Applying BB promises to facilitate more resource efficiency and competitive strength through higher adaptivity, stronger customer focus and faster decision-making processes (Hope and Fraser, 2003a). Hence, it seems to be relevant to assess whether BB can enhance the performance and resource efficiency of SME (Foreman-Peck, 2013). Especially, when resources are

often scarce in SME and hamper the exploitation of growth opportunities or even causes a crisis (Marriott and Marriott, 2000; McAdam and Reid, 2001; Yew Wong and Aspinwall, 2005).

## **1.2 Research objective**

The main objective of this study is to comprehend BB in SME and theoretically link the actual knowledge about SME specifics and the BB approach and practices. An initial systematic literature review did not show any results of entry titles regarding BB in SME. Therefore, it indicates the scare of extant literature dealing with BB's adoption and application in SME. On the other hand, a wide range of scholarly and peer viewed articles subject the specifics of SME (Ayyagarie et al., 2007; Halabi et al., 2010; Hansen and Hamilton, 2011) and management accounting and control (MAC) in SME in particular (Andersén and Samuelson, 2016; Bourne et al., 2005; Dávila and Foster, 2005, 2007).

Only a few articles provide qualitative and quantitative evidence in this research field (Becker 2014; Bourmistrov and Kaarbone, 2013; Libby and Lindsay, 2010; Max, 2005, O'Grady and Akroyd, 2016a; Sandalgaard and Bukh, 2014). Following Becker (2014), Bourmistrov and Kaarbøe (2013) and Wallander (1999), BB was mainly induced by a minimal number of larger corporations. Much of the extant relevant literature is considered management and practitioner oriented (Bogsnes, 2016; Daum, 2005; Hope and Fraser, 2003a, 2003b). The compilation of individual cases only shows situation-specific control mechanisms without differentiated and harmonised principles. Therefore, the lack of universally applicable design and implementation recommendation is noted (O'Grady and Akroyd, 2016b). Further, empirical evidence on how BB is adopted and applied is widely lacking (Ostergren and Stensaker, 2011; Sandalgaard and Bukh, 2014). Consequently, the research gap is to be determined in rare scholarly analysis and disputation.

## **1.3 Research questions**

Based on the above justification and research objectives, the above research questions will be answered by the study. The research questions that this study is expected to answer are;

1. *Why have SME not adopted BB widely despite the criticisms of traditional budgeting and BB's claimed advantages?*
2. *Which BB principles would be applicable for SMEs and why?*
3. *What are the ideal SME characteristics that facilitate the adoption of BB?*

#### **1.4 Research methodology**

In order to achieve the stated objective and answer the research questions, the study adopted a systematic research methodology. An SLR allows combining existing knowledge from previous independent research fields and develops propositions about possible relations and external impact (Cooper and Schindler, 2014). The study followed the established SLR principles and recommendations suggested by Briner & Denyer (2012) and Denyer & Tranfield (2009), which will be discussed in detail in Chapter 02.

The researcher used library databases such as Elsevier Science Direct, SAGE, Emerald Insight, ProQuest, JSTOR, Springer Link, Wiley, and search for keywords of the study (Denyer and Tranfield, 2009; Macpherson and Jones, 2010). The first search on three prefixes "Beyond Budgeting", "Budget Abandon", "Budget absence", combined with the suffixes "SME" or "Small Business" or "Medium Enterprise". The second phase of the search was focused on BB and management control in SME. Thereby, the aim was to make the first step towards bridging the research gap of BB's implementation in SME and encourage further scholarly dispute. Subsequently, the methodological approach is explained to facilitate rigour and readability for recipients (Largay III, 2001).

#### **1.5 Structure of the study**

The study is structured with eight chapters, where each chapter covers relevant areas as in the following manner.

##### **Chapter 1 - Introduction**

The chapter provides a detailed overview of the background; research objective; research questions; the study's scope, and the methodology.

## Chapter 2 – Research Methodology

The chapter elaborates the steps of conducting research, data collection and analysis.

## Chapter 3 – The BB Approach

The chapter provides insights into traditional budgeting criticisms and then introduces the BB approach and briefly describes its proposed value-add. Also, this chapter discusses the challenges of implementing BB.

## Chapter 4 – Definitional Approaches and characteristics of SME

This chapter sheds light on general and MAC specific SME characteristics and how they distinguish from large corporations.

## Chapter 5 – Theoretical Foundations

The chapter elaborates on relevant theories, focusing on SME, which are the basis in deducing propositions.

## Chapter 6 – Propositions Development

In chapter five, propositions are developed based on prior notions to create possible responses to the research questions.

## Chapter 7 – Discussion

The chapter reflects and discusses the propositions and indicates possible relations among these. Importantly, limitations of the research approach and thus, the outcomes are pointed out.

## Chapter 8 – Conclusion

The chapter summarizes the study's concluding remarks, mainly the applicability of BB in SME and draws out implications for researchers and practitioners. The examination closes with pointing out future research possibilities and limitations.

## **CHAPTER 2: RESEARCH METHODOLOGY**

### **2.1 Introduction**

Research is considered as a systematic search of certain information by gathering knowledge and conducting a scientific investigation (Kothari, 2004). How the researcher solves the research problems is denoted as the methodology (Kothari, 2004). It further explains the various steps conducted, the types of techniques adopted, and the scientific logic behind such application. A systematic review caters research to identify, evaluate and integrate findings that would be relevant to a particular study and ultimately guide the research to achieve its objective (Cooper, 2003). Thus, this chapter elaborates the research design and the method adopted in collecting and analysis of data for the study.

### **2.2 Research methodology**

In order to identify the current state of research, an initial literature review by keyword search was conducted. The systematic review technique was applied to make this step transparent and replicable (Jesson et al., 2011; Nightingale, 2009; Tranfield et al., 2003). The intention was to precisely determine whether or not scholarly literature on the topic is available and could be found in a most researcher independent manner (Tranfield et al., 2003).

Therefore, a title search was conducted. Each of the three prefixes “Beyond Budget\*”, “Budget\* abandon” and “Budget\* absence” was combined with suffixes “SME” OR “Small Business” OR “Medium Business” OR “Small Company” OR “Medium Company” OR “Small Enter-prise” OR “Medium Enterprise”. The search reached out to the eight databases; EBSCO Business Source Complete, Elsevier Science Direct, Emerald Insight, JSTOR, ProQuest, Springer Link, SAGE and Wiley. The selection of the databases mainly followed Hiebl (2012, 2015a). However, all search patterns did not show results.

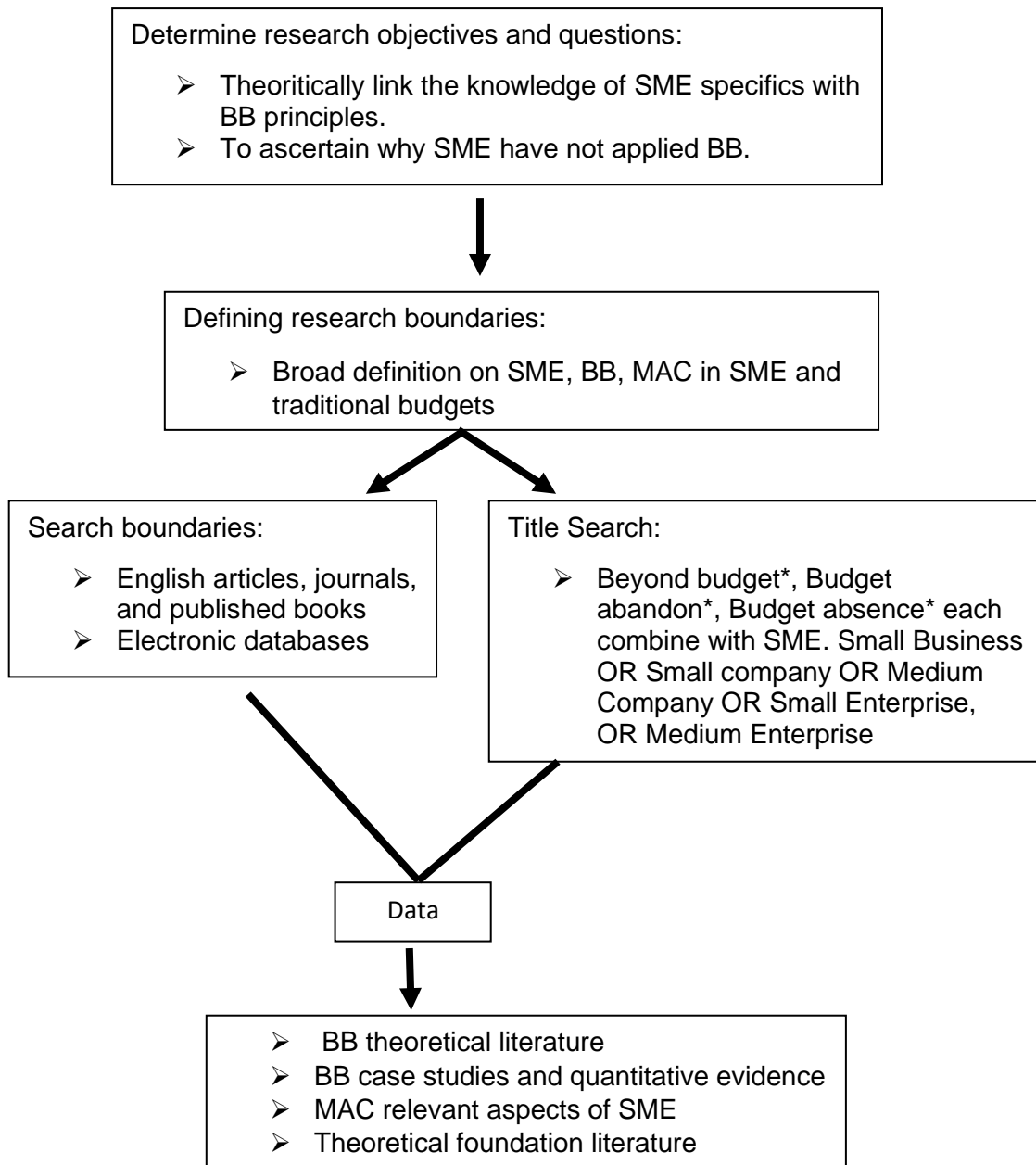
As per the second step, relevant literature of the independent research fields of BB and MAC, particularly in SME, was identified by a traditional narrative literature search which allows an emerging comprehensive search based on

initial generic key terms (Green et al., 2006; Jesson et al., 2011; Kitson et al., 2013). In the course of the examination, relevant SME literature was not limited to specific criteria which allow the consideration of case studies and empirical evidence of all industries, geographical locations and cultural backgrounds (Ayyagari et al., 2007). Due to the variety and inconsistent use of different SME definitions, all SME literature findings were taken into consideration. This seemed to be appropriate due to two reasons. Firstly, an initial and conceptual approach was applied in an unmaturing and less explored research field. Secondly, SME literature without definitional parts nevertheless could contain valuable information contributing to the development of propositions.

Subsequently, relevant SME research theories were introduced to meet various SME characteristics and gain a thorough and applicable foundation for assessing BB suitability in SME and developing propositions (Miller and Le Breton-Miller, 2006). The underlying theories include resource-based view theory, contingency theory, life cycle (LC) theory and stewardship theory. The findings of literature review activities were clustered into BB theoretical literature, BB case studies and quantitative evidence, MAC relevant aspects of SME, academic literature and methodologies literature. An Excel spreadsheet served for sources organization as sorting these by the author(s), year, title and content tags.

Followingly, the research questions steered the focus onto the development of propositions as possible answers to the research questions. These were not necessarily based on every single principle of the BB approach. Instead, the aim was to theoretically link the actual knowledge about SME specifics and the BB approach and practices (Saunders et al., 2012). The developed propositions aim to state about BB's suitability for SME and if so, what are possible impacts on performance. Moreover, possible connections or interdependencies between propositions were determined. Illustration 01 depicts the process followed.

Illustration 01: Summary of the SLR



(Source: Own illustration)

## 2.3 Chapter Summary

The study has used SLR as its research methodology. This chapter has described the methodology adopted in the study by discussing research design, data collection and analysis. The results of the analysis are depicted in the following chapters. Firstly, an illustration of both the traditional budget and BB. Secondly, a thorough elaboration of SME's characteristics followed with a discussion of theoretical foundations to develop propositions.



## **CHAPTER 3: THE BB APPROACH**

### **3.1 Introduction**

This chapter explores the concept of BB through a theoretical point of view. BB has its roots in business practice and practitioner literature (Hope and Fraser, 2000, 2003a, 2003b; Pieper, 2017). The concept of BB came into light due to the shortcomings of traditional budgeting (Gary, 2003; Hope and Fraser, 1997, 2000, 2003a, 2003b, Pieper, 2017; Sandalgaard and Bukh, 2014). Unlike other business steering concepts, BB aims to eliminate the limitations of traditional budgets (Hansen, 2011). First movers and other BB supporters joined together in 1998 to form the Beyond Budgeting Round Table (BBRT), an institution seeking the actual extant BB model (Hope and Fraser, 2003a). This chapter enables the readers to understand BB principles and the limitations of traditional budgets.

### **3.2 Criticism of traditional budgeting**

Proponents of BB argue with three main material shortcomings of traditional budgeting which are subjects in the following paragraphs (Bogsnes, 2016, Hope and Fraser, 1997, 2000, 2003a, 2003b, Neely et al., 2003). Firstly, the traditional budgeting is considered cumbersome and highly time-consuming and expensive (Hansen et al., 2003; Hope and Fraser, 2003a; Libby and Lindsay 2003a; Neely et al., 2003). The perpetual budgeting process for the following financial year usually takes around four to five months and involves line managers as well as management accountants and top managers from all corporate divisions (Dugdale and Lyne, 2011; Hansen et al., 2003; Hope and Fraser, 2003a). However, as per the survey study of Libby and Lindsay (2007), the estimated traditional budget preparation cycle is ten weeks, whereas proponents of BB estimate this time to be around ten to fifteen weeks. Therefore, as per the empirical results of both Libby and Lindsay (2010) and Lidia (2014), the budgetary process may not be as time-consuming as highlighted by the BB literature. The costs of budgets arise due to the negotiation, and the preparation of the master budget, which seems to be disproportional (Bogsness, 2016; Player, 2003). The inefficiencies of iterative

and bureaucratic planning, adjustment processes, line-item detailed budgeting and the rapidly running out of date of forecasts through unexpected developments open the questions regarding the value-add of traditional annual budgets (Bogsnes, 2016; Gary, 2003; Hope and Fraser, 2003a, O'Grady and Akroyd, 2016a; Sandalgaard and Bukh, 2014).

Secondly, Hope and Fraser (2003a) emphasise that traditional budgeting failed to keep up with the contemporary competitive environment and, hence, lag in fulfilling the management requirements adequately due to command and control management approaches. The conventional budgeting has its roots in the industrial age of the last century (Hope and Fraser, 2003a; Østergren and Stensaker, 2011). While the current business environments focus on the service sector, globalisation tendencies, and the prevalence of information system let too much higher complexity, dynamics and volatility (Østergren and Stensaker, 2011). Consequently, companies face elevated competition as in former times and a more adaptive and quicker responding management is required (Hope and Fraser, 2003a; Sandalgaard, 2012). Hope and Fraser (2003a), suggest that budgetary powers should be transferred to employees who associate the customers more closely than the management. Fixed budgets are bundled up with disadvantages such as decreased organisational coordination flexibility and the ability to respond to opportunities, threats of the business environment, or customer demands (Sandalgaard and Bukh, 2014). Nevertheless, Libby and Lindsay (2010) emphasise a contrasting finding where the companies face the dynamic environment by frequently changing their budgets as and when it is required. Therefore, minimal flexibility and adaptability are not considered as severe disadvantages (Libby and Lindsay, 2007, 2010; Lidia, 2014).

Thirdly, traditional budget foster manipulation and unethical behaviour (Hope and Fraser, 2003a; O'Grady and Akroyd, 2016a; Rickards, 2006). Hope and Fraser (2003a) emphasise that budget lead to fixed performance contracts for managers based on their budgets target, which causes dysfunctionality. One of the main reasons for such dysfunctionality is the hierarchical structure of top-down budget implementation (Argyris, 1953). In early days, budgets were used as a mere tool to plan and forecast the business and as a mechanism to evaluate and control employee performances (Johnson and Kaplan, 1987). As Libby and Lindsay (2010) pointed out, budgets stand out as one of the

formidable management control tools. Generally, budgets are negotiated between the top management and subordinate. The latter tries to achieve the targeted budget at their highest individual convenience to obtain contractual rewards which eventually creates pressure (Sandalgaard and Bukh, 2014). Therefore, there is a risk where an individual's performance may hinder the company's long term value optimisation (Rickards, 2006). The study conducted by Libby and Lindsay (2010), further establishes this fact, where countries such as the USA and Canada tend to suffer because of gaming behaviour due to the budgetary process.

Moreover, such pressure will lead to budgetary slacks, manipulation of data, drift between departments within an organisation (Argyris, 1953). Also, as per Bogsnes (2016), agency problems may overshadow negative impact on the budget itself. As pointed out by Libby and Lindsay (2010), only a few companies endeavour to solve the dysfunctionality of the budgetary process. This dysfunctional behaviour may cause adverse effects on corporate or reputational losses since scandals to arise and open up to the public (Hope and Fraser, 2003a; O'Grady and Akroyd 2016a; Sandalgaard and Bukh, 2014). In summary, traditional budgets have been labelled as inefficient, ineffective and dysfunctional (Becker, 2014).

### **3.3 Characteristics of BB**

BB approach was brought into the light to meet the changing business environment by providing an alternative management model which abandons traditional budgeting (Becker, 2014; Hope and Fraser, 2000, 2003a; Sandalgaard and Bukh, 2014). BB aims to enhance a more adaptive organisation and its processes and consistently decentralise responsibilities (Becker, 2014; Hope and Fraser, 2000, 2003a; Sandalgaard and Bukh, 2014). However, BB does not imply that the business activities shall be performed without borders and targets (Daum, 2005). BB principles aim to change the organisational structure and culture towards higher competencies and responsibility that are close to market business units or even employees to accelerate decision-making processes and improve customers' outcomes (Dugdale and Lyne, 2011; Hoper and Fraser, 2000, 2003a, 2003b). Hence,

the first group of principles focus on the leadership culture (Ostergren and Stensaker, 2011). Some scholars such as Kaarbøe et al. (2013) and O’Grady and Akroyd (2016b) find it difficult to define boundaries between BB principles and believe that it creates confusion regarding the implication of each principle. However, as per Table 01, there is a precise alignment of leadership principles and management process in the twelve principles of BB which strive to override budgets (Bogsnes, 2016).

*Table 01 – Twelve Principles of BB*

Adaptive Management Processes	Radical decentralization
1. Target definition Relative Benchmarks Ambitious Medium-term focus	7. Governance framework Shared values Common principles No detailed regulations and rules
2. Motivation and Compensation Based on relative performance Retrograde (no predetermined targets)	8. High-performance climate Reduced bureaucracy Agility communicate outcome expectation
3. Strategy Planning process Continuous Inclusive Lean	9. Decision-making autonomy Trust on responsible employees Self-regulating performance avoid micromanagement
4. Resource Allocation and Coordination Just-in-time availability Allocation upon requirement	10. Power delegation to front-line units Foster focus on value-adding activities Small specialized teams
5. Action Coordination Dynamic upon events Customer-focused	11. Accountability for customer requirements Connection of all tasks with customer Independence from hierarchy
6. Performance control and evaluation Holistically Genuine and open feed-back Frequent and fast	12. Open and genuine information system Equality in information availability Genuine data

*Adopted from: Bogsnes (2016, p.70); Hope and Fraser (2003a, p.69); O’Grady and Akroyd (2016b, p.7)*

Interestingly, BB approach does not claim for the total abandonment of commonly used MAC systems, rather various methods can be integrated and mutually contributes to transforming organisational processes towards greater adaptivity (Hope and Fraser, 2003a; Horvath, 2015; Player, 2003). Therefore, the managers must take charge of strategy to facilitate the response time to

cater to any uncertainty without relying on an outdated plan or approval from the management (Hope and Fraser, 2001). BB proponents introduce value-based management, benchmarking, the balanced scorecard, activity-based management, customer relationship management and forecasting as applicable management accounting systems for its implementation. However, benchmark and rolling forecast seem to be playing a pivotal role in the BB approach (Bogsness, 2016; Hansen et al., 2003; O'Grady and Akroyd, 2016a; Player, 2003; Sandalgaard and Bukh, 2014).

Benchmarking is a performance evaluation based on relative measurement criteria (Hope and Fraser, 2000, 2003a). The advantage of a relative target is that they adjust in dependence on the relative comparable value, for instance, the achieved sales volume is not measured against the internal budgeted target, but sales of the most crucial competitor or the change in the average market volume. As a result, it may increase the employees' challenging atmosphere as they are being compared within the market, thus enhancing the high-performance environment within the organisation (Hansen et al., 2003; Hope and Fraser, 2003a). Moreover, such environment would facilitate to conquer the typical dysfunctional behaviour of empire-building due to fixed target agreements since relative performance-based evaluation encourages decision-makers to go for alternatives which are comparatively ideal for the business (Hansen et al., 2003). Such adaptive processes form a substantial basis for radical decentralisation (Hansen et al., 2003). For instance, it will lead to making non-budgeted investments to exploit unpredictable opportunities. However, despite the apparent advantages, practitioners struggle in finding adequate benchmarks since organisations often lack external comparable and the degree of uncertainty about available competitive data to base substantial evaluation or decision onto (Hansen et al., 2003; Sandalgaard and Bukh, 2014).

Rolling forecast does not focus on a particular end of a budget period. Instead, these perpetually enhance a most likely outlook onto a given period in the future (Becker et al., 2010; Goode and Malik, 2011; Hope and Fraser, 2003a; Pieper, 2017). Player (2003) assures that rolling forecast provide more relevant information for the horizon of managerial decisions. One significant difference between the BB consensus of rolling forecasts to traditional year-end forecasts is that the deviations from actual achievements and targets

should not be causing penalties, eliminating bonus payments (Hope and Fraser, 2001, 2003a, 2003b; Sandalgaard and Bukh, 2014). Combined with more decision power at lower organisational levels, rolling forecast contributes to a more substantial philosophy of overarching business success rather than the achievement of fixed individual targets (Hansen et al., 2003; Hoper and Fraser, 2001, 2003a, 2003b).

### **3.4 Chapter summary**

This chapter discussed the main criticisms of traditional budgets that triggered the existence of BB and its development. Further, based on empirical findings, the chapter elaborated on the fact that the adaptive management process and decentralisation are the primary notions of BB concept. The next chapter will facilitate in identifying the attributes of SME, which will enable the study to strive a link of those characteristics with BB principles.

## **CHAPTER 4: DEFINITIONAL APPROACHES AND CHARACTERISTICS OF SME**

### **4.1 Introduction**

This chapter aims to illustrate the characteristics of SME in detail. At the same time, the chapter will discuss how SME differ from large organisations and their peers regarding management style, sector and maturity level. First, the chapter explores different definitions of SME from a theoretical point of view, and then in the second part, the chapter will review the characteristics of SME.

### **4.2 Definitional approach**

In most economies, SME contributes a significant amount to the gross domestic product and employ high proportions of the available workforce (Ayyagari et al., 2007; Broccardo, 2014; La Porta et al., 1999). Despite wide-ranging research, SME lack a universal definition (Ayyagari et al., 2007). Consequently, scholars and practitioners apply various interpretations based on different understanding criteria under the terminus SME (Ayyagari et al., 2007). Moreover, many scholars tend not to use specific SME definition but rather discuss SME characteristics (Brunninge et al., 2007; Gama and Geraldes, 2012; Kraus et al., 2006).

However, as per Ayyagari et al. (2007) commonly used definition criteria are the number of employees, total assets or annual revenue. As per the European Commission (2003), the definition of SME is where there are maximum 249 employees and either yearly income of up to 50 million Euro or total assets of up to 43 million Euro. However, as per the report published by Grant Thornton in the year 2018, SME in New Zealand have an annual turnover within the bracket of NZ\$ 5 to 30million and/or employees between 20-99, and unfortunately, there is no official definition.

### **4.3 Characteristics of SME**

Specific characteristics of SME also distinguish from sizes and types of companies on a qualitative level (Baumann-Pauly et al., 2013; Becker and

Ulrich, 2011; Loecher, 2000). One of the most evident characteristics is the relatively lower availability of resources in financial and non-financial perspectives than large corporations (Davila, 2005; Marriott and Marriott, 2000; Wasserman, 2017). For instance, SMEs lack adequate qualified management accountants and sophisticated MAC systems (Davila, 2005; Halabi et al., 2010; Mitchel and Reid, 2000). It could be that SME owners do not see the necessity to bear the expenses of recruiting highly paid qualified staff or spend on external consultants for MAC tasks (Davila, 2005; Mitchel and Reid, 2000). As a result of scarce MAC systems, SME lag behind in delivering high transparency and information (Marriott and Marriott, 2000). Nevertheless, sporadically, scholars recently found an upward trend of SME using MAC systems to enhance strategic planning and daily decision-making processes (Ahmad, 2017; Shield and Shelleman, 2016).

Further, most SME are characterised by a personal union of ownership and management (Brunninge et al., 2007). Single owners or owning families often are invested in the company with a large proportion of their individual property (Hoopes and Miller, 2006). Mostly family involvement steers corporate goals not only because of financial aspect but also due to philanthropic or reputational factors (Campopiano et al., 2014; Chrisman et al., 2012). SME performance thereby varies with the degree of management involvement and quantity of members within the ownership circle (De Massis et al., 2013, 2015). As per Hiebl et al. (2015b), firms with high family influence introduce a lesser MAC system.

Stewart and Hitt (2012) have stated that the application of professional and integrated management models by the family managed organisations, outperform their peers which steer the business at a lesser professional level. Generally, the style of the owner's leadership has a significant influence on the company's culture (Collier, 2005). When compared with multinational companies, SMEs, in general, have lower organisational complexity; a higher degree of pragmatism in activities and as a result, swifter decision making is encouraged (Becker and Ulrich, 2011; Falkner and Hiebl, 2015; Lavia López and Hiebl, 2015). At the same time, owner-managers tend to be patriarchic and make business decisions by themselves rather than delegating the decision making power to their line managers (Collier, 2005; Dávila and Foster, 2007; Wasserman, 2017). Further, the strategy development of SME



are mostly driven by the experiences of the owners with a long term vision which is somewhat opposite of the intended strategies of large corporations (Aarsted et al., 2016; Brunninge et al., 2007). On the other hand, SME owners are skilled in evaluating businesses scenarios cognitively and making instinctive decisions by themselves (Baron and Ensley, 2006).

However, it is essential to point out that those businesses that fall in SME category may distinguish widely from their peers. One significant differentiation criterion is the expected time of being an SME. Dávila and Foster (2009) have stated that most SMEs are established companies facing no or moderate growth. This type of SME are commonly found without external equity. It may serve as income substitution for their founder-owners which is typical for artisans who manage the business and work as operational staff simultaneously. Therefore, it is likely that these businesses remain as small and medium-sized over some time. Some SMEs conduct operations in unmaturing biotech markets, information and communication technology (ICT) that seek to create extensive products and services (Granlund and Taipaleenmaki, 2005). These companies are often-cited as start-up companies that are frequently financed with external equity, such as ordinary venture capital (VC), to found typical high expenses for research and development in innovations (Granlund and Taipaleenmaki, 2005). Therefore, a further characteristic of start-ups is rapidly growing in terms of qualified employees, revenue (Granlund and Taipaleenmaki, 2005). The founders of start-ups are keen on achieving a high valuation of their equity shares in order to sell them after a certain period (Dávila and Foster, 2009). Thus, it seemingly is likely that those SME only remain or medium-sized temporarily (Granlund and Taipaleenmaki, 2005).

Lavia Lopez and Hiebl (2015) compose that SME utilises MAC system in a lesser scope and uses it differently compared to larger organisations. For instance, usage of MAC system by SME is somewhat driven by the influence of third parties (Amat et al., 1994; Halabie et al., 2010; Marriott and Marriott, 2000). Generally, the MAC system's execution depends mainly on the organisational complexity and its size (Becker et al., 2011; Davila, 2005; García Pérez de Lema and Duréndez, 2007; Hudson et al., 2001; Marc et al., 2010). According to Moores and Yuen (2001), extending and formalising MAC systems' usage varies with the LC-stages. Thereby, the more mature the

company's formalisation and utilisation of MAC system, the more mature the company is (Andersén and Samuelson, 2016; Granlund and Taipaleenmaki, 2005; Kallunki and Silvola, 2008; Su et al., 2017). However, it may decline when the companies reach substantial weaknesses in the latter stage of its life cycle (Granlund and Taipaleenmaki, 2005). Nevertheless, adequate MAC systems facilitate more formalised management and decision-making processes to properly allocate and exploit scarce resources in SME (McAdam and Reid, 2001; Mitchell and Reid, 2000). Moreover, the utilisation of MAC systems play an essential role in the growth of young SME and can crucially contribute to the transformation from informal to more formal organisational activities aligned with the growth path (Davila, 2005).

#### **4.4 Chapter summary**

This chapter sheds light on general and MAC specific SME characteristics and how they distinguish from large organisations. The SME literature was not limited to a specific criterion but discussed in a broader sense based on the case and pragmatic studies. Considering the above SME characteristics, the next chapter will introduce relevant theories to deduce propositions with the ambition of seeking answers for the research questions.

## **CHAPTER 5: THEORETICAL FOUNDATION**

### **5.1 Introduction**

Fundamental theories play a crucial role in this study by endorsing the link of SME characteristics and developing a methodical platform to assess the suitability of BB approach and principles in SME (Saunders et al., 2012). Therefore, taking relevant accounting concepts into consideration, this chapter will discuss four theories. They are; resource-based view theory, contingency theory, Life cycle (LC) theory and stewardship theory. These theories will be discussed in general and subsequently focusing on SME (Le Breton-Miller and Miller, 2006).

### **5.2 Resource-based view theory**

The resource-based view theory became one of the most common theoretical frameworks of strategic management research (Barney et al., 2001; Henri, 2006). This conceptual view bases on the axiom that competitiveness is determined by a specific firm's unique and valuable resources (Henri, 2006; Lengnick-Hall and Wolff, 1999). Hence competitive advantages can be achieved by combining differential and firm's resources (Mahoney and Pandia, 1992). Thereby, the terminus resources are to be understood as a set of various elements that are collectively valuable, rare, inimitable, and unsuitable. Hence, they form an advantageous value proposition of the firm such that competitors cannot effortlessly replicate it (Barney, 1991, Henri, 2006). For instance, resources can be specific intangible assets (e.g. patents), human resources (e.g. expertise in particular engineering fields) or organisational resources (e.g. management skills and personal network of board members (Henri, 2006). Competitive advantages are not to be understood as the ultimate. Instead, to maintain or extend capabilities like innovativeness, customer orientation, or organisational learning must find new resource combinations (Henri, 2006; Hewitt-Dundas, 2006; Hitt et al., 2001). Following Henri's (2006) findings, companies with more significant change and adaption capabilities generate higher outcomes than the companies that cannot redefine business.

To ensure an efficient and appropriate resource allocation and to ensure reactions to maintain competitive edge promptly, the resource-based view strongly justifies the use of adequate MAC systems (Andersén, and Samuelson, 2016). This could be a system for operational and strategic procurement or market and competition research regularly. The MAC facilitates better managerial decisions due to profound and precise insight into the influential factors (Bourne et al., 2005; Van der Stede et al., 2006). Hence, due to better decision-making, resource exploitation effectiveness, and efficiency can be increased (Ahrens and Chapman, 2004; Hudson et al., 2001). Empirical evidence shows a positive relationship between the scope of use of MAC systems (including strategic planning) and corporate profitability (Amat et al., 1994; Andersén and Samuelson, 2016 Bourne et al., 2005; Henri, 2006, Van der Stede et al., 2006). From the resource-based perspective, the link between MAC and strategy is seen at the level of capabilities since MAC must ensure most outcome promising allocation of resources (Grant, 1991; Henri, 2006; Ittner and Larcker, 2001).

Chetty and Wilson (2003) and Gassmann and Keupp (2007) have stated that the most critical resource of SME is to be seen in the intangible assets. Hewitt-Dundas (2006) refined this statement by arguing that SME has higher innovation capabilities due to several reasons; such as closer market proximity and more precise customer requirement expectation or motivational atmosphere driven by entrepreneurial oriented managers. Hewitt-Dundas (2006) points out that owner-managers are vital resources for SME. Since such owner-managers have led the company for decades, they embrace a diverse set of knowledge and a robust social network (Aragón-Correa et al., 2008). Therefore, owner-managers' long-term vision of corporate development, long term relationships with the other stakeholders determines the competitive advantage amongst the SME (Aragón-Correa et al., 2008; Hewitt-Dundas, 2006; Merz and Sauber, 1995).

Interestingly less complexity organisational structure of SME enhances direct and lesser bureaucratic communication among different departments (Aragón-Correa et al., 2008). This foster a robust interpersonal relationship, a more profound sense of belonging, and un-unified culture (Aragón-Correa et al., 2008). Despite SME having relatively higher behavioural resource facilities, they suffer higher constraints in material resources such as lesser

economies of scale, scope, and capital than larger companies (Hewitt-Dundad, 2006; Vossen, 1998). According to Hewitt-Dundad (2006), SME is most likely to have problems hiring adequate qualified staff because it may be due to lack of renowned brand name, financial and non-financial compensation package compared with the large companies.

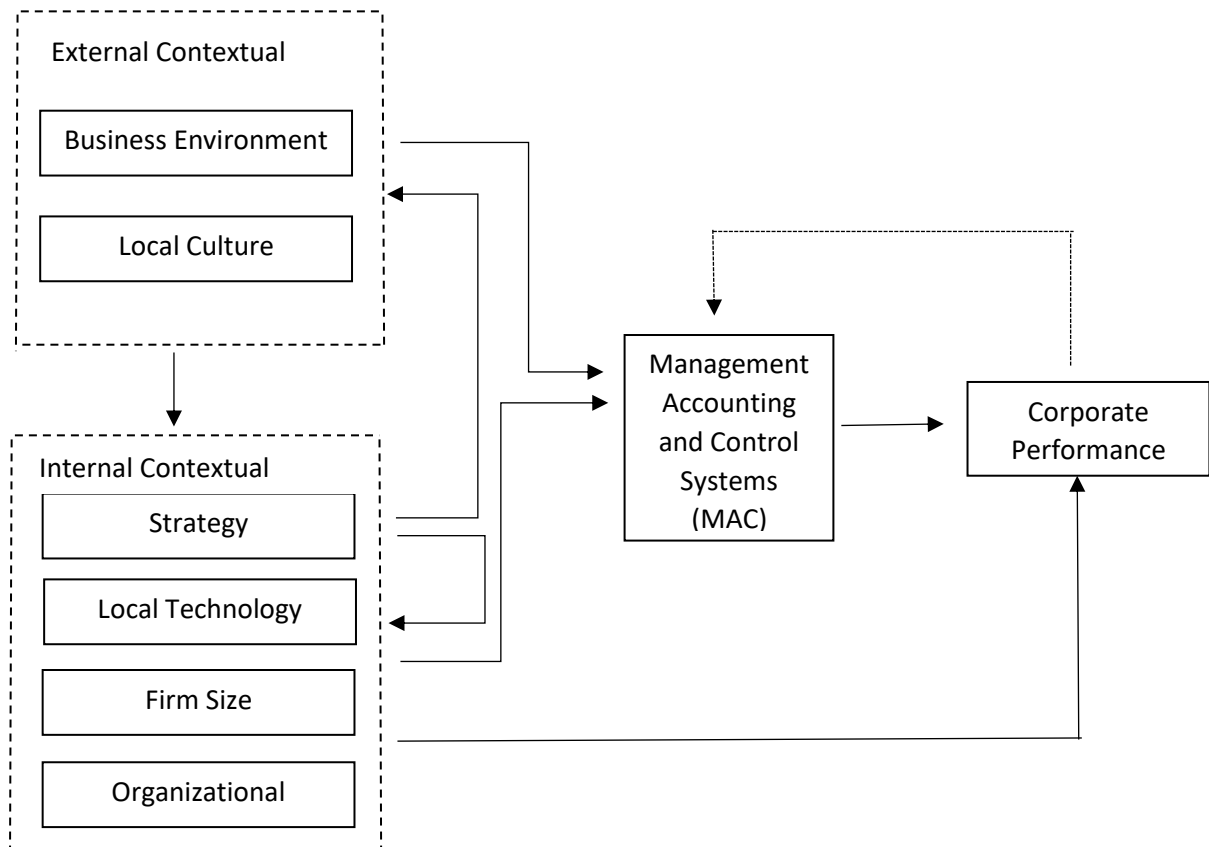
### **5.3 Contingency theory**

The contingency theoretical approach is based on a dogmatic premise of the non-existence of universally applicable design of organisations and processes (Dávila and Foster, 2009; Emanuel et al., 1990; Haldma and Lääts, 2002). Instead, various contextual factors influence the organisational setup to achieve aimed outcomes or goals (Dávila and Foster, 2009; Haldma and Lääts, 2002). While the earliest scholarly works primary subject business external factors (Burns and Staker, 1961; Woodward, 1965), latest studies have discussed internal contextual factors (Chenhall, 2003; Haldma and Lääts, 2002; King et al., 2010; Reid and Smith, 2000; Saeed et al., 2014). Reviewing scholarly literature, it is apparent that there is no uniform scope in respect of contextual factors (Haldma and Lääts, 2002). Some scholars, therefore, argue that contingency theory as such cannot be subjected isolated or as ultimate; instead, a wide range of contextual factors and context-dependence need to be considered (Chenhall, 2007; King et al., 2010; Otley, 2016). Waterhouse and Tiessen (1978) go one step further and state that contingency variable differently impacts an organisation upon the specific department of consideration. Going against the traditional use of MAC, contingency theory assumes that MAC systems are developed to enhance management decision-making processes and finally contribute to the archived performance (Haldma and Lääts, 2002; King et al., 2010). A vast majority of frequently cited literature indicates an overlap of commonly regarded MAC research factors (Chenhall, 2003; Sandalgaard, 2012).

The main contingency factors are business environment, technology, firm size and structure, local prevalent culture and strategy (Chenhall, 2003; Haldma and Lääts, 2002; Liao et al., 2003; Saeed et al., 2014). Illustration 02

demonstrates the framework of contingency factors on the use of MAC systems and corporate performance.

Illustration 02. Relations of contextual factors and their effect on corporate performance



*(Modified adapted from Haldma and Lääts, 2002, p.384)*

From an external contingency perspective, important determinants of the business environment factors is uncertainty and hostility (Chenhall, 2003; Haldma and Lääts, 2002; Sandalgaard, 2012). The former drives MAC systems to be used to gather a comprehensive and timelier information basis and a tendency towards more interpersonal besides budgetary control (Chenhall, 2003; Haldma and Laasts,2002; King et al., 2010). The latter is associated with a firm reliance on meeting budgeted targets and, therefore, a sophisticated MAC system (Amat et al., 1994; Otley 1980, 2016). Local culture generally determines market participants' supply and demand behaviour (Saeed et al., 2014). Furthermore, local law or accounting principles may influence internal business processes. Hence, globalising companies need to adopt the local specifics in designing the MAC systems in overseas entities

(Chenhall, 2003). Particularly in SME, such global expansion decisions depend highly on the decision maker's international experience and the SME's country-specific knowledge (Child and Hsieh, 2014; Gassman and Keupp, 2007).

Drawn from an internal contingency stance, technology primarily focuses on operational processes, transforming input to output (Chenhall, 2003; Emmanuel et al., 1990). Generally, unstandardised and unique products are produced, MAC design tends to be less formal, and control focused, while the opposite holds for standardised and mass-oriented production processes (Chenhall, 2003). Following Kalagnanam and Lindsay (1999), modern production technologies, e.g. just-in-time production, are well suited for more flexible and customer-oriented controls. King et al. (2010), in their study of 144 SME, have found evidence that the contextual factors, such as size and organisational structure, are positively linked to the adoption of budgets. It is in so far in line with Chenhall (2003) that decentralised corporations emphasise formal control as written budgets or defined patterns of already implemented MAC systems. The strategy is to be understood as an abnormal contextual factor since it influences some parts of the firm's external environment, technology size and structure, and the control culture (Chenhall, 2003). This highly depends on the characters of the meaning that executives tend to use for formal MAC systems, whereas more entrepreneurial managers also drive informal control mechanisms (Busenitz and Barney, 1997; Chenhall, 2003).

The wide range of literature on contingency theory predominantly focuses on large corporations (Liao et al., 2003). However, some scholars find that the adoption of MAC systems in their studied businesses is contingent on changes in the external business environment of SME. For instance, democratising economies induce a higher requirement for formal control and reporting (Amat et al., 1994). Further, Reid and Smith (2000) have stated that due shortages of external capital investments, MAC systems in SME inhibit optimum utilisation of resources. Specific local cultures, e.g. lifetime employment in Japan, form a contextual factor that affects employees' involvement in the company's development and leads to higher consciousness for resource efficiency and process improvement (Hoppe et al., 1999; Joshi et al., 2003). SME, which already extended their business

overseas, tend to adopt MAC systems at higher sophistication to control international operations' alignment with strategic planning (Marc et al., 2010). Liao et al. (2003), in their study of 242 growing US-American SME, discovered that environmental uncertainty and strategic orientation do not directly influence organisational adoption. Instead, they have stated that SME structural change is determined by external knowledge acquisition and internal knowledge distribution (Liao et al., 2003). As per Alpkhan et al. (2007), excessive planning flexibility of SME negatively affects the performance when environmental uncertainty increases. Due to lower organisational complexity and smaller size, SME tends to utilise MAC systems less sophisticatedly (Becker et al., 2011; Dávila and Foster, 2005, 2007; Quinn, 2011). Contingency-based analysis needs to identify and examine the direction of specific MAC practices and certain contextual circumstances (Otley, 1980). However, in 2016, Otley has mentioned that a bi-directional dependence does not allow to distinguish dependent and independent contextual factors clearly in some cases.

#### **5.4 Life-cycle theory**

The Life cycle (LC) theory proposes that organisational characteristics change depending on situated LC stages (Miller and Friesen, 1983, 1984; Moores and Yune, 2001; Su et al., 2017). Due to empirical endorsement and comprehensiveness, Miller and Friesen's (1983, 1984) model on the organisational LC won through as a popular framework in scholarly discussions as well as specific MAC researches (Auzair and Langfield-Smith, 2005; Davila, 2005; Drazin and Kazanjian, 1990; Moores and Yuen, 2001; Su et al., 2017). This model categorises five stages: growth, maturity, revival and decline stage (Miller and Friesen, 1983, 1984). The young firms characterise the first stage with informal communication and steering systems, simple organisational structures and single or few product strategies (Miller and Friesen, 1983, 1984). Owner-managers dominate decision-making based on intuition rather than analytical assessment, and they tend to keep managerial activities at a possible low level (Miller and Friesen, 1983, 1984). The growth stage includes initial product-market success, expressing by rapid revenue increase, and an increasing product mix (McMahon, 1998; Miller and Friesen 1983, 1984). Internal structures begin to get complicated, and higher



processes formality evolves to obtain manageability and administration efficiency (Miller and Friesen, 1983, 1984). As companies tend to mature, typical market-related attributes stabilise to moderately increasing revenues and lesser product innovation (Miller and Friesen, 1983, 1984).

Also, the Decision-making then underlies more risk aversion, and administrative processes formalise, and divisional structures are implemented (McMahon, 1998). Due to increasing competitiveness, managers tend to focus on resources and cost components, to facilitate process efficiency and profitability optimisation (McMahon, 1998; Miller and Friesen, 1983, 1984). In the revival stage, divisional structures are established, and the product portfolio is diversified to meet heterogeneous customer demands in various markets (McMahon, 1998; Miller and Friesen, 1983, 1984). Environmental dynamism and hostility determine high-risk inherence in the decision-making process (Miller and Friesen, 1983, 1984). The decline stage is characterised by low sales and market activities and declining revenues (Miller and Friesen, 1983, 1984). Consequently, profitability erodes due to fixed costs and the likelihood of survival critical incidents, e.g. cash shortages rise (Miller and Friesen, 1983, 1984).

A crucial role in the early stage of SME is that the owner-manager plays a vital part. However, in later stages, the key employees also contribute to goal achievements by activating social contracts, e.g., entering into foreign markets (Agostin et al., 2015; Stoian et al., 2017). In the initial and growth stages, the founder-owner can enormously facilitate a growth path with a high personal commitment, such as social contacts. In the later stages, the family ownership and management circle of SME may disperse (Le Breton-Miller and Miller, 2013). Nonetheless, SME employees will be driven by other factors such as profitability and profitability distribution (Le Breton-Miller and Miller, 2013). Moreover, there is empirical evidence of a significant positive relation between LC-stage and size, where larger SME tend to perform higher than the comparatively smaller ones, but younger outperform their older counterparts (Oliveira and Fortunato, 2006; Yazdanfar and Öhman, 2014). In the mature stage, some well-performing SME tend to foster a firm mover strategy with unique value propositions rather than being the ultimate efficiency-focused (Lester et al., 2008). As per the findings of Lester et al. (2008), low performing SME in the revival stage tends to apply a second-

mover strategy. They have also stated that the SME that are dissatisfied with the performance of their original strategy happens to seek success by replicating others (Lester et al., 2008).

Another critical point for a theoretical foundation is the learning and change behaviour of SME on an organisational and individual level in specific LC-stages. Tam and Gray (2016) have stated that in SME, individual learning generally lies in the employees' responsibility of employees as they know which skills are required to fulfil their specific tasks. Thereby, individual learning is of higher importance during the early stages than in later stages due to the higher reach and impact of single employees' actions (Tam and Gray 2016). Tom and Gray (2016) findings underline that fast-growing SME tend to use more group discussions and informal mind sharing than established SME. Formal infrastructure for learning is to be found preferably in mature SME (e.g. human resource development programs or hiring of externals to facilitate professionalisation and complexity management) (Drazin and Kazabijan, 1990; Rutherford et al., 2003; Tam and Gray, 2016). In all LC-stages and independent of the firm size, SME pay close attention to inter-organisational learning, e.g. creating personal networks (Ng et al., 2014; Tam and Gray, 2016).

## **5.5 Stewardship theory**

Stewardship theory originates from social and psychological sciences and particular concerns on the relationship of principals (owners) and agents (executive managers) from a behavioural and governance point of view (Davis et al., 1997; Madison et al., 2016). The steward is drawn as pro-organisational acting and aligning own interests with corporate interests, but selflessly superordinating the latter over any individual objectives (Davis et al., 1997; Donaldson and Davis, 1991). Attributes of stewardship behaviour are trust, involvement, long-term focus, personal commitment and collectivism (Davis et al., 1997; Segaro, 2012). Hence, according to stewardship theory, cost of control mechanisms are theoretically predicted as not occurring since those mechanisms are obsolete (Chrisman et al., 2007). Practically, controls are base on interpersonal trust, i.e. social control, rather than standard means

(Hiebl, 2015b). An interpersonal trust could set free resources which implicates a competitive advantage among peers required to install formal control mechanisms (Davis et al., 1997; Hiebl, 2015b; Hoopes and Miller, 2006). Not necessarily prioritising financial goals at the highest, stewards are intrinsically motivated to make decisions which are the best suit to increase overall organisational wealth (Davis et al. 1997; Segaro, 2012). This may be driven by public reputation, personal emotional satisfaction or family fortune (Davis et al., 2000; Miller and Le Breton-Miller, 2006).

Stewardship theory is widely used within family business research since it seemingly is well suitable to assess ownership-management-relations (Campopiano et al., 2014; Chrisman et al., 2007; Miller and Le Breton-Miller, 2006). As there is a wide overlap of the family business and SME in terms of ownership-management tensions (Eddleston and Kellermanns, 2007; Hiebl, 2014, 2015b; Miller et al., 2008; Schulze et al., 2003; Segaro, 2012), this theory seems to be an appropriate theoretical lens through watch onto the examination's problem set.

Following Chrisman et al. (2007), the often-existing unified ownership and SME management lead to zero agency costs. Because no clashes would occur since the owner and the manager are one person. Hence, typical governance conflicts, such as free-riding or executive's perquisites, are assigned as not occurring. However, this may change as a business is managed by several owners in later generations and personal interests dominate (Davis et al., 200; Miller and Le Breton-Miller, 2006; Schulze et al., 2003). Moreover, a firm's succession may arise uncertainty and doubt among senior manager-owners (Calabrò et al., 2016). Owners sometimes may stick with over-altruism and then tend to cling into the instinct that they are irreplaceable (Miller and Le Breton-Miller, 2006). Especially for successors, this can lead to disadvantages for a firm since, without voting rights, successors cannot take action on decisions (Miller and Le Breton-Miller, 2006). In their investigation, if 180 US family-owned SME, Eddleston and Kellermanns (2007) find that managerial altruism fosters firm performance, particularly when multiple managing family members share a typical stewardship attitude.

Further, Zahra et al. (2008) argue that a stewardship perspective in decision making facilitates strategic flexibility which is crucial to react promptly to changing environmental conditions. In their study among 2,087 SME, Classen et al. (2014) demonstrate that those involved in family ownership tends to forego higher capital expenditures for innovations, but chose feasible investment projects despite their dispersed ownership counterparts. Thus, it is in line with the statements that owner-managers do not necessarily seek short-term returns but instead prepare the business to cross-generational success (Miller and Le Breton-Miller, 2006; Miller et al., 2008). It is further anticipated that this altruistic attitude contributes to an average financial outperformance in the long run compared to quarterly focus as in listed companies (Miller and Le Breton-Miller, 2006).

## **5.6 Chapter summary**

The chapter elaborated on resource-based view theory, contingency-theory, life-cycle theory, and stewardship theory with the adoption of factual studies. These theories were reviewed, along with the characteristics of SME. The fruitful discussion of these theories builds a platform to develop propositions to link BB principles with SME, which will be tackled in the next chapter.

## **CHAPTER 6: PROPOSITION DEVELOPMENT**

### **6.1 Introduction**

Development of propositions was driven by the research questions to seek probable answers. The study intends to theoretically nexus SME characteristics and the BB practices and approach (Saunders et al., 2012). The propositions will discuss BB's suitability for SME and probable impact on the performance upon application of BB in SME. The chapter entails three segments. Firstly, it confers propositions under contextual factors and resource attributes which influence BB in SME. Secondly, the impact of ownership and management on BB in SME. Finally, the impact of life cycle stage, growth and sectorial factors on BB in SME.

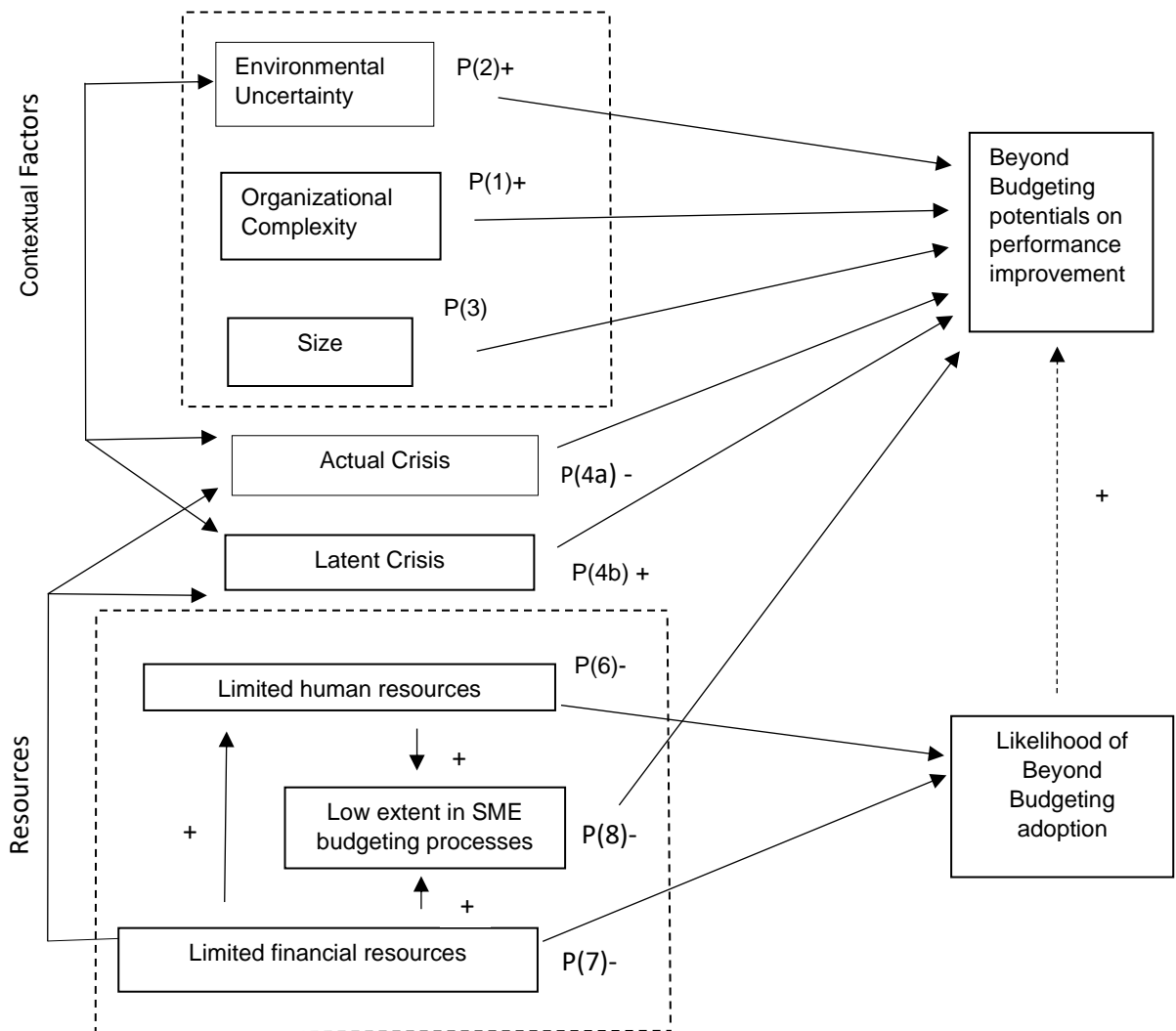
### **6.2 Contextual factors and resource endowments affecting BB in SME**

It seems appropriate to take an initial look at general influencing contextual factors and resource endowments in SME to assess BB's suitability for SME. The purpose of the BB approach is to overcome the typical behaviour of complex organisations, such as formalised communication paths, process inertia or detailed fixed budgets agreements (Hope and Fraser, 2003a). Therefore, BB aims to make organisations more adaptive to environmental changes and decentralise decision power, i.e. reduce complexity, to create a throughout higher customer closeness and process velocity (Hansen et al., 2003; Hope and Fraser, 2003a). Since the BB principles widely based on MAC systems, for instance, benchmark-related target definition or rolling forecasts, they are assumed as an appropriate proxy for BB in the subsequent sections.

Possible relationships of contextual factors and SME resource endowment on the BB performance potentials and BB's adoption are composed in Illustration 3 and are examined in the following paragraphs. Characteristics of complex organisational structures are reflected in many branches, interdependent departments and several hierarchy levels (Cassia et al., 2005; King et al., 2010; Rausch and Wall, 2015). Consequently, such organisations produce and distribute more information than their lesser complex structured

counterparts. There is considerable evidence that organisational complexity in SME is positively related to the extent of MAC systems usage (Becker et al., 2011; Cassia et al., 2005; King et al., 2010; Sandino, 2007). Seemingly, these are utilised to proceed the information management among organisational units. Apart from the organisational structure, complexity is contingent on other variables. External environmental conditions also influence the organisational structure and hence can contribute to higher complexity (Chenhall, 2003; Damanpour, 1996; Rausch and Wall, 2015). Regulatory requirements can drive the installation of particular functions or the adaption of established reporting patterns which can induce the need for higher sophisticated MAC systems (Amat et al., 1994).

*Illustration 03. Contextual factors and resource impacts on BB in SME*



(Source: Own illustration)

Furthermore, SME often tend to adopt MAC systems to meet external stakeholder demands rather than gaining advantages in internal decision-making (Amat et al., 1994; Halabi et al., 2010; Marriott and Marriott, 2000). In this course, it is assumed that single or few MAC systems are introduced rather than the comprehensive scope of BB principles. It could be troublesome in terms of internal commitment, i.e. mainly of non-managing employees, and willingness to change as an action is rather extrinsically than intrinsically motivated (De Waal, 2005). Hence, the actual effects of adopted new MAC systems on performance are not necessarily positive if they lack internal commitment. Following Marc et al. (2010), internationalisation is positively related to the sophistication of applied MAC systems. They state that the reason is to control the alignment of overseas entities with the overall strategic plan (Marc et al., 2010). Based on this argument, internationalisation processes lead to higher complexity, e.g. through an increasing count of subsidiaries or the need for coping with country-specific trade barriers (Gassmann and Keupp, 2007). In this case, the headquarters or investment controlling unit would install higher sophisticated MAC systems at overseas entities to early detect upcoming political turbulence and their effects on the entity (Allatar et al., 2009). Besides organisational complexity, firm size is to be considered as a significant contextual factor for the adoption of MAC systems (Dávila and Foster, 2005, 2007; King et al., 2010). As a general result of their literature review, Lavia López and Hiebl (2015) draw out empirical findings that large companies tend to use both broader and higher sophisticated extent of MAC systems than their smaller counterparts.

Moreover, Alattar et al. (2009) find that decreases in size (from large or medium-sized to small enterprise) leads to an accompanying reduction in the use of MAC systems. Contrary, Dávila and Foster (2005, 2007) also have stated that small growth firms tend to adopt and utilise MAC systems to a broader extent, incrementally. Usually, the scope of application and information processing increases with the firm size (Grande et al., 2011). Interestingly, as per the finding of few empirical studies, the extent and sophistication of MAC systems utilisation of medium-sized firms seem to be closer to large corporations when compared to smaller firms (Ahmad, 2017; Laurinkevičiūtė and Stasiškienė, 2011). There is no reliable research position that considers the organisational size as a contextual factor for organisational complexity. However, some scholars (Damanpour, 1996; Naveen, 2006) have

found a positive relationship between organisational complexity and firm size. Followingly these findings, it is assumed that size of the firm, functions as a contextual factor for the degree of BB induced performance. Thus,

*P(1) Higher the degree of organisational complexity, higher the performance potentials of BB adoption*

*P(2) Higher the degree of environmental uncertainty, higher the performance potentials of BB adoption*

*P(3) Larger the firm, higher the performance potentials of BB adoption*

The above propositions may be supported by King's et al. (2010) findings, that the use of formal written budgets is positively related to performance at least in small businesses. Following Chenhall (2007), competitiveness and the degree of hostility within business environments strengthen the rely on budgets but also lead to more externally focused MAC systems to recognise changing environmental conditions at the earliest. However, despite increased use of traditional budgets, increasing environmental uncertainty seems to decrease the perceived usefulness, since these are adapted with a time gap and too infrequent, i.e. due to excessively high adjustment costs (Ekholm and Wallin, 2011). Significantly, the cost argument may be of high meaning for typically resource-scarce SME. More vital budget adherence but also higher dissatisfaction seems to be a paradox. However, it is so far is in line with the critique of the BB approach as adaptivity of traditional budgets onto changed environmental conditions is cumbersome and out of reasonable time (Hope and Fraser, 2003a; Marginson and Ogden, 2005).

Also drawn from (human and financial) resource constraints of SME, risk management may be performed more informal and in a lesser extent than in large corporations (Gao et al., 2013). Reid and Smith (2000) find that cashflow-crisis or funding shortages are contingent factors that are positively related to MAC systems' use and extent in SME. In financial distress or restructuring situations, MAC systems are generally utilised for closer cost monitoring and pay greater attention to expenses (Reid and Smith, 2000). According to Laitinen (2011), SME in crisis tends to adapt or refocus on critical



and formal MAC systems. Thus, it is in line with Alattar et al. (2009) 's findings, where the high environmental uncertainty increases the MAC system usage.

However, combined with inadequate or delayed individual reactions, substantial environmental changes can cause a crisis. Even though alternative steering systems, such as BB, promise higher performance and more strategy aligned operations, in acute distress situations, adoptions of new or changes in extant MAC systems negatively affect the performance (Laitinen, 2011). It could be due to resource scarcity and the potential distraction from realising turnaround measures by change activities due to implementation or adaptation of MAC systems (Laitinen, 2011; Lavia López and Hiebl, 2015). In this context, the most considerable difference between large corporations and SME might be that the former can afford specialised external advisory when compared with the latter. Thus, this might be advantageous in to achieve short-term turnaround and long-term redesign of MAC systems simultaneously, whereas SME has to conduct this, if any, in sub-subsequent steps (Becker et al., 2015; Bourmistrov and Kaarbøe, 2017; Lin et al., 2006). Thus,

*P(4a) Adopting BB in the acute crisis of SME can amplify the negative performance due to a distraction of attention and resources.*

However, once the realisation of survival measures seems to be successful, SME is aware of the need to change MAC systems for future performance improvement and timelier crisis avoidance by decentral risk detection (Laitinen, 2011; Lavia López and Hiebl, 2015). Therefore, it is assumed that

*P(4b) Adopting BB in latent crisis enables SME to improve early detection of inherent risk crisis as employees are encouraged to act promptly to market fluctuations and empowered to take appropriate actions to avoid or rather minimise the impacts of the crisis*

Despite those mentioned above, other contextual variables might directly influence the BB suitability for SME. For instance, another market-driven contextual factor is seen in the characteristics of niche markets where SME often operates in (Simon, 1992, 2012; Voudouris et al., 2000). Those markets are usually determined by shallow market volume, a low number of market

players and followingly high individual market shares (Ivanov, 2009; Voudouris et al., 2000). For some SME, in predominately industrial equipment manufacturing tend to have a minimal portfolio of specialised products and only a handful of vendors and customers (Voudouris et al., 2000). A low number of comparable peers and the generally lesser extent of external published financial information assumingly have a negative effect on the availability of external benchmark data (Sandalgaard and Bukh, 2014).

Moreover, external financial communication commonly underlies a considerable time lag, especially for non-listed firms, typical for SME (Sandalgaard and Bukh, 2014). A further shortcoming benchmark availability is size, respectively, the organisational structure. As large corporations usually install same functions in several departments, e.g. upon global regions. Therefore, such large corporations can perform internal benchmark practices. SME widely lacks internal peers due to the circumstance of only one specific department (Sandalgaard and Bukh, 2014). This is in line with Hansen et al., (2003), where they have discussed that not all organisations have the luxury of decent benchmark data and hence hindered in their relative performance assessment. Regarding performance evaluation based on comparative targets, it is proposed that;

*(P5) SME operating in niche markets and/or having lesser business unit structure face a lack of benchmark-peers and thus struggle with introducing relative performance targets.*

Elicited from a resource-based view on SME, both qualitative and quantitative human resources availability may impact the suitability and capability to adopt BB and its possible performance potentials. Compared to large corporations, SME commonly shows lesser distinctive MAC functions (Mitchell and Reid, 2000). Generally, management accountants' role in large corporations developed to a strategic management partner (Henttu-Aho, 2016). Medium-sized firms employ essential accounting staff, while smaller firms often do not hire adequate qualified human resources to process financial or even manage accounting tasks inhouse (Mitchell and Reid, 2000). These seemingly often tend to outsource accounting tasks, for instance, to tax advisors who do not serve sophisticated MAC services, but rather process financial accounting and tax declarations (Marriott and Marriott, 2000). Following Halabi et al.

(2010), it is not uncommon that internal accountants only function for bookkeeping or treasury management. Relative to large corporations, SME often does not have a distinct administration basis and individual employees tend to be responsible for multiple fields of tasks. Therefore, technically, SME is rather challenging to afford specialists for a particular business area (Benjaoran, 2009; Marriott and Marriott, 2000).

Moreover, the adoption of BB comes along with organisational change processes. Change processes require organisation members' adequate capabilities to gain long-term achievements (Garengo and Bernadi, 2007). Notably, lacking MAC specific skills, SME employees could be overstrained and hence crucially hamper the implementation of sophisticated MAC systems (Laviá Lopez and Hiebl, 2015). Traditional annual budgets inevitably provide structure and guidance, which positively affect employees' work certainty that would undoubtedly be more meaningful for SME (Abogun and Fagbemi, 2011; Frow et al., 2010; Vazonienė and Stončiuvienė, 2012). On the other hand, Sandalgaard and Bukh (2014) have found out that neglected integration of BB throughout all hierarchical levels led subordinated units to continue with detailed budget analysis to explain deviations. Proponents argue that BB facilitates cost savings since traditional budgeting tasks are highly resource-consuming (Bogsnes, 2016; Hope and Fraser, 2003a). It might be valid for the massive showcase companies. Contrary, against the background of above-examined lesser extent and sophistication of budgeting processes in SME, the following proposition states that;

*P(6) The potential performance improvements through budget abandonment by adopting BB are lesser in SME per se due to the lesser extent of traditional budgeting activities.*

Owner-managers, particularly in small firms, tend to understand financial information due to low or no adequate training (Alattar et al., 2009; Halabi et al., 2010). It might be that many small businesses are running as an income substitution where the owner-manager often is actively involved in operational processes (Marriott and Marriott, 2000). In these cases, performance is frequently understood and defined as the bank account balance rather than from an accounting perspective (Halabi et al., 2010). Consequently, SME owner-managers are often not intrinsically motivated to introduce more

sophisticated MAC systems to enhance their decision-making (Halabi et al., 2010). As per the findings of Marriott and Marriott (2000), although owner-managers expect better results from more sophisticated information provision, they tend to be reluctant towards hiring management accountants because their costs are estimated to outweigh the advantages (Marriott and Marriott, 2000). Since the BB approach as proposed requires the combined use of sophisticated MAC systems, for instance, balanced scorecard or rolling forecasts, it is assumed that;

*(P7) Due to insufficient MAC-specific resources at both management and staff level, SME face difficulties in adopting BB in its suggested origin form.*

SME owner-managers are reluctant against external advisory and stick relatively healthy on their control (Granlund and Taipaleenmäki, 2005; Wasserman, 2017; Watson and Newby, 2005). As a result, it can lead to deterrence and aversion of external equity and debt providers, leading to scarce financial resources (Becker and Ulrich, 2011; Wasserman, 2017). As per Becker (2014), when assessing about BB adoption, decision-makers generally feel anxious about occurring costs. One of the main cost drivers would be external management consultation with the intention of staff training programs and to foster internal commitment by bringing external legitimacy as change agents (Becker, 2014). Remarkably, the difficulty of predicting time horizon for changing the organisation towards the new control culture is a concern (Becker, 2014). Another cost driver is implementing or adapting information technology (IT)-systems (Sandalgaard and Bukh, 2014). IT-systems need to be adequately designed to enable collaborative working and open information available as required by BB principles (Grothe, 2003). The IT-landscape may be of particular meaning for SME as they could generally have lesser sophistication than their larger counterparts. Composing the reluctance and required of additional secondary financial resources of SME, a proposition is that;

*P(8) Managerial reluctance and/or shortages in financial resources hinder SME in adopting BB*

### **6.3 The Impact of ownership and management on BB in SME**

Drawn from a stewardship theoretical perspective, it seems interesting to examine possible influences of ownership and management tensions, respectively separating BB's adaptability and performance potentials in SME. In the often-prevalent case of cooperative ownership and SME management, goals differ in terms of type and time horizon (Hiebl, 2015a). Especially in the case of two or more owner-managers, which is typical for second or later generation family SME, critical determinants of the management style are a shared vision, mutual trust and social control (Mustakallio et al., 2002; Senftlechner and Hiebl, 2015). Notably, the latter two aspects contribute to lesser formal control systems, thus reduce monitoring costs (Hoopes and Miller, 2006). Owner-managers aim to form a robust, sustainable business and keep management and control rights over a long period (Classen et al., 2014; Kotey, 2005; Moores and Yuen, 2001).

In contrast, as claimed by BB's proponents, commonly, the tension of ownership and management shapes a higher degree of centralization in decision-making (Moores and Yuen, 2001; Senftlechner and Hiebl, 2015). Both Forsman (2008) and Poutziouris (2001) have stated that owner-managers aim to stay independent. Therefore, owner-managers are more cautious about achieving stable growth and expansion and thus maintain an adequate equity basis (Kotey, 2005; Poutziouris, 2001). SME tend to act conservatively to adopt new facilities or opting for substantial organizational change (Richbell et al., 2006). For instance, capital expenditures in new and unproven technologies are executed reluctantly since risk-taking through those initiatives may endanger owners' wealth (Zahra, 2005). Instead, investments are chosen by owner's eligibility to maintain the capital at lowest risk (Hoopes and Miller, 2006).

Since owner-managers have the highest commitment to their business, they are often noted as playing a crucial role in sustainability and steering the firm on the growth path (Blackburn et al., 2013; Hansen and Hamilton, 2011). Following Aragón-Correa et al. (2008), the owner-managers social network is significant for SME as it often paves the way to supply of required resources. On a broader sense, they are also enablers of agreements with business partners (Hansen and Hamilton, 2011). In their multiple case studies, Hansen

and Hamilton (2011) demonstrated that it is common for SME owner-managers to personally take action to play their social capital and long-term relationships to the firm's favour. Therefore, it would undermine the criticism of BB regarding too less proximity of decision-makers to the markets. Following Kotey (2005) and Richbell et al. (2006), the strategy development and the management style of owner-managers in SME are taking place in informal (family) atmosphere, which emerges over-time, rather than being a formalized process.

On this notion, it can be seen as agreeing with BB, which asks for lean and continuous strategic planning processes. Contrary, the claim for inclusion of all organization members in the planning process seems to be not suitable for owner-managed SME, mostly when the chairman of the board and the chief executive officer (CEO) are often held in a personal union (Dávila and Foster, 2009). In this case, decision-making power is concentrated, and original stewardship effects may be inverse as the owner-manager can opt for his instinctive decisions without being intervened (Collier, 2005; García Pérez de Lema and Duréndez, 2007). Marginson (1999) has noted that the common issues among top-level managers are their intention to steer the attention and hence influence lower-level managers' actions. Counter to owners-mangers' background, this aspect may be particularly intensive, and as a result, lower-level non-owner-managers experience a narrow room for decision-making. Chen et al. (2009) state that long-term position insisting of SME owner-managers lowers their firm's performance potential. Concluding from the above notions, the below propositions are formulated.

*P(9a) Centralised decision-making power and authoritarian leadership stand in contradiction to BB's core claim. Therefore, radical decentralisation would not find attention in pertinent SME dominated by ownership-management tension.*

*P(9b) Inherent motivation, low formal but rather social control, mutual trust, continuous strategy processes and utilization of personal networks denote that some elements of the BB principles unintendedly take place in (family) SME per se. However, against the background of ownership-management tension, this appears only at the owner-manager level (s).*

In their literature review, Senftlechner and Hiebl (2015) have stated that the usage of MAC systems in medium-sized family-owned businesses is negatively related to the influence of the owner-management. Generally, operational MAC systems meet external stakeholder demands (e.g. quarterly reports to the banks that provide loans). Whereas, strategic MAC systems (e.g. the balanced scorecard), are only utilized at a low degree with less sophistication (García Pérez de Lema and Duréndez, 2007; Neubauer et al., 2012). Some SME owner-managers may actively prevent the installation of MAC systems that might move managerial actions towards higher transparency (Chen et al., 2009; Miller and Le Breton-Miller, 2006). In their study, García Pérez de Lema and Duréndez (2007) revealed that ownership-management-tension in SME leads to concentrating lesser attention on adapting planning and monitoring activities. It is also emphasized by Hiebl et al. (2013), as they figured out that medium-sized family businesses tend not to establish explicit MAC departments but utilize fewer MAC systems at both strategic and operational level as well as develop a lower formalization of the same. It is argued that there is minimal requirement to monitor potential agency costs due to unified ownership-management (Neubauer et al., 2012).

However, as the ownership structure gets more fragmented in later-generation family SME, and consequently, the entrepreneurial commitment and owners' common identification could dilute (Miller and Le Breton-Miller, 2006). But differently, stewardship effects might erode, and individual cash flow claims arise to dominate the owners' interests. In those cases, the mutual trust may diminish, and thus social control loses its influence. Mustakallio et al. (2002) state that the implementation of formal control and steering mechanisms, i.e. fixed budgets, can serve to overcome the potentially adverse effects. However, Mustakallio et al. (2002) also have mentioned that narrow formal control systems for managers can negatively affect the co-working sense based on mutual trust. Therefore,

*P(10) Higher the degree of ownership dispersion and/or the lower the active management involvement of owners, lower the likelihood of BB adoption since mutual trust and social control diminishes and formal control systems arise to be implemented*

As discussed earlier, though SME seeks sovereignty and independence by sustainable maintenance of their equity basis, some SME are open to attracting external capital. These businesses seemingly may distinguish from their above-described peers in terms of their goals and characteristics (see also section 5.3) (Dávila and Foster, 2009). Commonly young and growth-oriented hi-tech SME injects further equity, predominately in the form of VC, obtained from outside investors to fund growth initiatives (Dávila and Foster, 2009). Moreover, mature and established (family) SME are not averse against external investors per se. Both Poutziouris (2001) and Westhead and Howorth (2016) have found empirical evidence that the aim of keeping the business alive for a long time opens up a window for long-term external investors to inject fresh capital to the company. In this case, preferably, private equity investors appear since such SME tend to be less risky but require higher volume investments. Due to outside investors' engagement, respectively, the board structure changes, and a formal board of director gets appointed (Dávila and Foster, 2009). Dávila and Foster (2009) have stated that there is a clear distinction in traditional self and bank loan-financed SME compared to VC-financed. A significant difference is to be seen in the board structure as investor side members get appointed, and ownership and management are separated, i.e. the disappearance of personal union of CEO and chairman of the firm (Dávila and Foster, 2009).

Separated ownership and management (control) can lead to an increasing need for goal alignment since proper monitoring and control requirement increases as agency costs might occur (Seal, 2006). Institutionalized MAC systems may play an essential role in supporting the governance change and avoid typical agency problems, e.g. empire building or free-riding (Hieblet al., 2013; Seal, 2006). Furthermore, multiple scholars find that board activity is significantly higher in VC-backed firms (Busenitz et al., 2004; Fried et al., 1998; Knockaert and Vanacker, 2013; Tan et al., 2013). Outside investors assist in overcoming SME typical resource constraints by providing financial aid and function as business advisors for their portfolio companies (Hellmann and Puri, 2002).

Ivanov and Xie (2010) state that the availability of market analysis, marketing resources and the business network of investors may meaningfully support the professionalization of SME. External investors further can affect the



qualification of SME staff and organizational adaption capability (Dávila and Foster, 2007). According to Hellmann and Puri (2002), VC-financed firms also benefit from aid to attract adequate qualified human resources. Following Sheu and Lin's (2007) notion, VC investors positively affect more information transparency. This may be corroborated by the fact that external investors' goal is to maximize their investment value and ensure receiving of perpetual dividends and exit return (Hellmann and Puri, 2002; Ivanov and Xie, 2010). However, portfolio steering and value management might differ among investors. In his multiple-case study, Becker (2014) illustrates how the investor-ownership structure can influence BB's survival. He reveals that a new owner demanded traditional budgeting practices, which initially led to a two-path solution of BB and traditional budgeting. However, as the company is sliding into an economic downturn, it resulted in abandoning BB (Becker, 2014). Hence,

*P(11) Required human resource capabilities and organizational adaption capability depend on external investors' degree of activism and willingness to foster BB's adoption.*

Although all the companies examined by Henttu-Aho and Järvinen (2013) and Sandalgaard and Bukh (2014) are not SME, they recognized the ongoing existence of fixed budgeted targets in their case studies; i.e. due to investor demands for control about the delivery of expected annual dividends. Therefore, it is in line with findings that indicate a positive relationship between VC and MAC systems adoption (Dávila and Foster, 2005, 2007, 2009). As per Dávila and Foster (2005), MAC systems are faster adopted as they are charged with outside capital. Dávila (2005) and Dávila and Foster (2009) form that ongoing organizational and financial growth requires formal control mechanisms to manage increasing complexity. Concludingly, it is proposed that;

*P(12) Likelihood of BB adoption in a specific portfolio company is negatively related to external (VC) investors' presence since those require fixed budget targets to manage their expected annual portfolio return.*

As mentioned above, the board activity is also reflected with the replacement or complement of former owners or founders with new external managers, as

intended by the external investors' control rights (Brunninge et al., 2007; Dávila, 2005; Dávila and Foster, 2009). One reason would be the lacking managerial competence of origin owners or founders regarding the steering and developing of the business in the sense of investors' value creation (Hellmann and Puri, 2002). Busenitz and Barney (1997) and Dávila (2005) state that particularly founders are often ineligible to transform their firm into a more formal and structured organization. Especially, founders with technology or engineering educational background may lack managerial competence (Granlund and Taipaleenmäki, 2005). Dávila and Foster (2007) argue that serial founders or founders who gained former management experience, understand the need for professionalization. For instance, the introduction of appropriate MAC systems in order to keep the businesses on the growth path. Dávila and Foster (2005) have highlighted that external expertise brought into the firm by the new CEO and/or CFO is positively related to the adoption and implementation velocity of MAC systems.

However, external managers' appointment does not necessarily come with the disappearance of the former owner or founder. García Pérez de Lema and Duréndez (2007) state that experienced external managers also co-manage the company alongside the origin owner or founder, such that the former function as guides or field-specific advisors to the latter. Following Classen et al. (2014), non-owner-managers tend to opt for higher innovation investments than owner-managers. Combining with Neubauer et al. (2012)'s findings, that the non-owner-managers tend to utilize newer and higher sophisticated (strategic) MAC systems, it is assumed that MAC systems are advantageous in capital budgeting, which decrease uncertainty in decision-making. Therefore;

*P(13) External managers potentially enable and facilitate the adoption of BB in SME, when compared to their lesser specific skilled inside counterparts*

Nevertheless, as discussed above, alterations in the board of directors may cause changes to MAC systems. Becker (2014) points out that the reason of removing BB in one of his examined case companies was an ultimate result of a simultaneous replacement of several directors who did not believe in an alternative steering approach. Thus, it is assumed that;

*P(14) The adoption of BB in SME depends on the personal preference and the experience of the responsible external manager.*

#### **6.4 Life-cycle stage, growth and sectorial influence on BB in SME**

Following Kallunki and Silvola (2008), Moores and Yuen (2001) or Su et al. (2017), MAC systems are utilized differently in the LC-stages of a firm. Hence, it seems promising to watch onto the BB adoption and performance potentials in SME through an LC-theoretical lens. Moreover, this section explicitly sheds light on possible sectorial impacts. Those SME which operate in the biotechnology or ICT sector, i.e. start-ups, may differ considerably from other SME operating in traditional industries (Granlund and Taipaleenmäki, 2005). Thus, assessing the impact of the differential criteria, for instance, the knowledge intensity, VC financing or the fast growth on the possible BB adoption in start-ups against the LC-theoretical background may reveal unique propositions.

In the birth stage, organizational communication, control, and task coordination occur in an informal manner (Dávila, 2005). As typical for the birth stage, young firms face widely external environmental uncertainty regarding the attempt to initially place their products or services at the market due to lacking experience (Su et al., 2017). Thus, in this earliest phase, difficulties in setting financial targets, defining strategy, or identifying the business model's actual value drivers are inherent (Su et al., 2017). However, Granlund and Taipaleenmäki (2005) demonstrate that, despite possible resource constraints, a minimum of financial control is preferred by birth-stage start-ups achieved through a basic form of rolling forecasts. Apart from focusing on the firm's development, founders demonstrate their managerial capabilities to attract possible financiers. Dávila (2005) notes that small young firms' employees are committed and motivated to high performance by the founder's close relationship and entrepreneurial spirit. For usual, the latter is potentially the highest and most entrepreneurial driven in the early stages of a firm's LC (Blackburn et al., 2013). Information is likely to be unbiased and accessible for all organization members due to a lower scope of information and low count of employees in the earliest stages (Dávila, 2005). Also, Dávila

(2005) states that small firms, or those who tend to remain small over time, may not require the adoption of formal MAC systems. He argues that informal control mechanisms may be more useful since formalisation costs are potentially higher than the achievable benefits of those (Dávila, 2005).

The above notions of the possible absence of a fixed budget and use of basic rolling forecasts, highly motivated staff, open and genuine information systems and the not necessarily required formal MAC systems contently reflect some parts of the twelve BB principles. In contrast to those, SME mainly and recently founded businesses, in particular, tend to centralize decision-making power at the owner-manager, respectively founder (Su et al., 2017). Moreover, due to lacking size and internal structure and minimum market knowledge, it can be assumed that most young and small businesses could face difficulties in finding adequate benchmarks for relative performance evaluation as required by the BB approach. This might be undermined in the presence of an early-stage VC investor who may provide benchmark data (Dávila and Foster, 2007). Concludingly, it is proposed that;

*P(15) A kind of unintended BB is likely to be applied per se by recently founder-funded and small businesses with a high-performance atmosphere and absence of traditional budgets.*

As new businesses start to grow, structural changes in the organization come along (Su et al., 2017). The count of employees increases, and professions tend to cluster functionally, i.e. departments get successively installed (Dávila, 2005; Su et al., 2017). Following Miller and Friesen (1984), this structural adaption is crucial to foster function-oriented collaboration. However, in the course of functional division and as young firms still find themselves in the settling phase at the markets, the ensuring of exchange of information gets of higher importance to maintain knowledge sharing and thus innovativeness (Su et al., 2017). Moreover, Chenhall and Langfield-Smith (1998) state that as the firm grows, the organizational hierarchy adapts new levels of department evolution, requiring appropriate MAC systems to coordinate the unit-steering. The subordinate managers may tend to pursue rather personal than the firm's interest when the top-managers (founders) who were previously involved in operational tasks distance themselves towards strategic and vital decision-making role. As a result, agency costs may occur in the growth stage (Dávila,

2005; Su et al., 2017). Thus, MAC systems rapidly formalize when the informal control and steering mechanisms from the birth phase get inappropriate in handling the firm's increasing size and complexity (Dávila, 2005; Moores and Yuen, 2001).

Moores and Yuen (2001) have stated that increasing the need for reporting and objectivity in performance measurement lead to the highest formalization of MAC systems in the growth stage. There are consensual notions that traditional budgeting is predominant among the first adopted MAC systems (Dávila and Foster, 2005; Granlund and Taipaleenmäki, 2005; Sandino, 2007). Following Granlund and Taipaleenmäki (2005), the initial introduction of (traditional annual) budgeting practices serves as an enabler for adequate financial control of increasing working resources. Dávila and Foster (2005) have found a positive relationship between the utilization of budgets and firm growth and underline the importance of formal MAC systems at early LC-stages to professionalise young firms. Dávila and Foster (2007) have highlighted this notion by arguing that MAC systems create the managerial infrastructure to scale up the firm. Furthermore, they have stated that the initial installation of MAC systems is crucial for its growth (Dávila and Foster, 2007).

Differences may exist between start-ups and non-technology industry foundations. As the former typically attract VC, they can benefit from investors' expertise and managerial capabilities (Dávila and Foster, 2005; Hellmann and Puri, 2002). Moreover, it is not uncommon for VC investors to replace or complement the founder-manager with experienced external managers (Dávila and Foster, 2005, 2007). Hence, under the aid of outside investors and/or external managers, start-ups may be significantly faster and less vulnerable in implementing initial MAC systems than their traditional industries counterparts (Brunninge et al., 2007; Dávila and Foster, 2005). Dávila and Foster (2005) show that the earlier operating budgets are adopted, the higher and sooner revenue grows and the higher its valuation. Remarkably, the latter is the overarching goal of founders and early-stage investors such as VC investors. They look for a profitable exit opportunity than remaining long-term owners such as typical for small income substitution or family businesses (Hellman and Puri, 2002). The above notions are supported by Neubauer's et al. (2012) finding that non-family owned businesses utilize more modern and sophisticated MAC systems.

Brunninge et al. (2007) and Hellmann and Puri (2002) underline the crucial role experienced external managers can play for young companies. However, they also note that due to lacking reached vital milestones, e.g. having a renowned customer or concrete business plan, young non-VC-backed firms might struggle in attracting external expertise. Consequently, those SME may be slower and facing more conceptual failures or, however, tend to remain a lower extent of proper MAC systems usage. Another difference between technology start-ups and their non-technology counterparts is their capability for change and their theoretical (academic) background. As the former typically employ plenty of highly qualified academics, it is assumed that they can understand new MAC systems and adapt their behaviour quickly (Granlund and Taipaleenmäki, 2005). Those SME with lesser educated staff may have lower change capability and a general understanding of business administration, leading to MAC systems adoption in lesser sophistication and velocity (Haldma and Lääts, 2002).

Independent from experienced external managers, the first budgets in young companies are assumed to be pragmatically planned top-down and conducted by the founder and CEO and/or CFO. Thus, it is highly likely that those budgets may not be overly detailed (Granlund and Taipaleenmäki, 2005). BB claims to save resources due to the abolishment of complicated and time-intensive budget negotiations (Bogsnes, 2016; Hope and Fraser, 2003a, 2003b). However, this argument is likely to be undermined since the initial budgeting attempts are firstly conducted at a low detail level and do not consume as much as proposed resources (Granlund and Taipaleenmäki, 2005). Additionally, in their mentioned success stories, BB proponents mainly focus on large and established corporations, where budgeting complexity is likely to be excessive (Bogsnes, 2016; Hope and Fraser, 2003a). In contrast, BB proponents argue that budgets are fast running out-of-date (Bogsnes, 2016; Hope and Fraser, 2003a, 2003b) might be strengthened in this LC-stage, particularly through ongoing few experience of markets behaviour. Therefore, planning uncertainty is crucial (Granlund and Taipaleenmäki, 2005). Drawing the above notions together it is proposed that;

*P(16) Small and medium-size technology start-ups are unlikely to adopt BB in the growth stage since traditional MAC systems and fixed operational*

*budgets are installed to accelerate growth and achieve the superordinate goal of high valuation.*

*P(17) Small and medium-sized non-technology firms in their growth stage are likely to insist on inherent BB behaviour due to lack of adequate change capability and external managerial expertise for a higher formalization of MAC systems.*

The maturity stage is characterized by decelerating growth and stabilizing environmental conditions (Su et al., 2017). Formerly small and medium-sized businesses might have transformed from growth to maturity stage into large corporations. Su et al. (2017) state that mature firms focus on optimizing internal processes to improve resource exploitation and cost reduction. In this point, there is no specific sectorial influence as technology firms, and their non-technology counterparts are seemingly indifferent (Granlund and Taipaleenmäki, 2005; Haldma and Lääts, 2002; Sandino, 2007). Higher efficiency might lead managers to explore new management systems (Moores and Yuen, 2001). This could be supported by lower resource scarcity compared to the earlier stages. Su et al. (2017) argue that higher certainty about the environment enables better predictability and the setting and control of (financial) targets. However, they reveal that MAC systems' formality lessens in the maturity stage than the growth stage (Su et al., 2017). Importantly, this does not imply a lesser extent or sophistication in using MAC systems since Granlund and Taipaleenmäki (2005) state that age is positively related to MAC's attention and advanced practices. However, Dávila (2005) notes that mature firms may settle in routines and lose change capability. This is in line with Moores and Yuen (2001) findings who figured out that mature firms, over time, develop their firm-specific steering systems and distance from formal MAC systems.

In the maturity stage, a firm is expected to be widely full-grown. Hence, size-driven impacts on MAC systems need to be considered. Lavia López and Hiebl (2015) have composed empirical evidence that the size is positively linked to the extent and sophistication of MAC systems adoption in SME. Thereby, medium-sized firms seem to be closer to large corporations than to small businesses (Ahmad, 2017; Laurinkevičiūtė and Stasiškienė, 2011). According to Masurel and Van Montfort (2006), SME from birth to maturity

stage seek for ongoing expansion in their client portfolio, range of products or services and sales activities. Therefore, these differentiation tendencies cause higher complexity and higher customer-specific actions. The higher focus on internal cost optimization, openness for alternative steering systems, a lesser degree of MAC systems formalization and diverse customer-market-basis might be fruitful signs for adopting BB in maturity stage SME. However, despite the possible suitability, the need, and the willingness for change within the organization towards BB must be given as precondition (De Waal, 2005; Rickards, 2006). Under the presumption that no resource constraints would be prevalent, it is proposed that;

*P(18a) BB might be highly suitable to be intendedly adopted during the maturity stage of SME. Thereby, a positive relation between firm size and the adoption of likelihood is assumed.*

*P(18b) Higher the age of SME in the maturity stage, the lesser the likelihood of the adoption of BB*

As noted above, MAC systems are lesser formalized but rather individualized from growth to maturity stage. In contrast, Moores and Yuen (2001) have revealed that an increase in formalization of MAC systems in the revival stage. This stage is determined by higher market competitiveness through new market incumbents and/or price battles for existing products or services (Su et al., 2017). Both macro-economic and business internal issues affect the adoption and design of MAC systems as a reaction to changing conditions (Bourmistrov and Kaarb e, 2017). To overcome eroding revenues and diminishing market shares, firms emphasize product innovations and diversification (Miller and Friesen, 1984; Moores and Yuen, 2001). There are multiple findings that businesses, to facilitate detailed understanding of cost drivers and inefficiencies, tend to utilize more formal and short-term oriented MAC systems (Auzair and Langfield-Smith, 2005; Jones and Dugdale, 2002; Kallunki and Silvola, 2008). Accordingly, Lin et al. (2006) state that organizations tend to centralization and formal control in critical environments. In so far, it seems not surprising that Moores and Yuen (2001) and Su et al. (2017) find an increase in MAC systems formalization in the revival stage compared to the maturity stage. SME owner-managers might take specific action of their network and thereby facilitate revival actions (Ng et al., 2014).



Further, based on the notions of Moores and Yuen (2001) and Senftlechner and Hiebl (2015), it is assumed that in case of higher environmental uncertainty, owner-managers seek for higher involvement in decision-making and thus create more increased centralization. According to Becker et al. (2015), MAC systems happen to win respect for its ability for planning and resource allocation during turbulent times. Interestingly, the managerial reaction in terms of product portfolio restructuring and higher MAC systems formalization during the time of uncertainty is parallel to the growth stage behaviour of a business. However, contrary positions argue that tightened controls amplify crisis effects since flexibility and adaption capability gets limited (Bhimani and Langfield-Smith, 2007; Bogsnes, 2016).

Moreover, opponents of traditional MAC systems state that a re-orientation onto higher formalized and centralized steering system hampers employees' motivation and flexibility in terms of customer interaction (Bogsnes, 2016; Hope and Fraser, 2003a). Widener (2007) states that creativeness and informal cross-level communication is crucial in turn-around phases. However, following Henri (2006), employees can remain creative and, yet, deal with higher formalization and stronger analytical focus of steering systems at a certain degree. Thus, the impact of formalization and centralization on creativity and customer interaction may be reflected as a continuum. Consequently, as claimed by the BB principles, the high-performance atmosphere would not negatively be affected per se, as suggested. In contrary, it might be seen as supported by P(4a), the following proposition for revival stage SME is formulated.

*P(19) Due to higher environmental uncertainty, the emphasis on formalization and decision-power centralized. Therefore, BB is not well suited for revival stage SME and unlikely to be adopted*

Moores and Yuen (2001) have mentioned that firms reduce their extent and sophistication in the use of formal MAC systems during the decline stage. Notably, they state that the reliance on fixed budgetary control reduces and both long-term planning and short-term forecasting is applied, if any, at a minimum level (Moores and Yuen, 2001). Following Miller and Friesen (1983, 1984) this can amplify the negative development and lead to a downturn-circle where resources, both financial and human, for a possible turnaround

diminish and thus have an accelerating effect. Masurel and Van Montfort (2006) have revealed that SME tended to omit customer portfolio sales and diversification during the decline stage and overlook new market entry opportunities. This is in line with Moores and Yuen (2001), where they have noted a high consolidated product-mix and, if any, a low level of innovativeness.

According to Masurel and Van Montfort (2006), labour productivity decreases from maturity to decline stage. Their sample of SME lies in the eroding staff basis and thus lesser variety of served industries and lesser extent of activities (Masurel and Van Montfort, 2006). Therefore, it is concluded that during the decline stage firms get smaller, and the organizational complexity decreases. Following Moores and Yuen (2001), decision-making turns to authoritarian and considerations based on a minimum level of formal information. Also, declining firms commonly are characterized by diminishing profit or losses, which, over time, causes increasing resource shortages (Moores and Yuen, 2001). Particularly for the SME inherent resource scarcity, this may rapidly lead to existence-threatening illiquidity or over-indebtedness. Concluding from the above statements, the following propositions are deduced.

*P(20a) SME are most unlikely to adopt BB in the decline stage due to the specific lowering but required resource endowments and lesser internal and external use cases.*

*P(20b) Performance potentials of BB are low in the decline stage of SME due to the specific lowering organizational complexity and consolidated customer-product-portfolio.*

## **6.5 Chapter summary**

The chapter has illustrated the development of propositions based on empirical studies. Driven by research questions and watching through different SME appropriate theoretical lenses, propositions were established to provide possible directions to achieve the study's objective. The correlations among the propositions and its relevance to BB and SME will be discussed in the following chapter.

## **CHAPTER 7: DISCUSSION**

### **7.1 Introduction**

This chapter intends to discuss the research questions by contextualizing the propositions that were developed by the study. The purpose of this chapter is to link actual knowledge of SME research, particular MAC in SME, with relevant BB literature and finally shed light on the adoption suitability of BB and its possible impact on the performance of SME. The chapter consists of two parts. Firstly, the chapter will discuss the research question on why SME have not adopted BB yet. Secondly, the chapter will review both second and the third questions together: what are the BB principles applicable for SME and the epitome characteristics of SME that enable the adoption of BB.

### **7.2 BB vs Traditional Budgeting**

In defiance of the promising advantages, there are a couple of hurdles that may stand on BB's way in triumphing its success. Undoubtedly, the traditional budgets have rooted in organizations as a management tool which support many areas to obtain financial equilibrium by planning, evaluation, motivation, commitment, delegation, coordination, and communication (Lorain et al., 2014). Some empirical studies express that BB is less useful (Hansen, 2011). Besides, some scholars share their concern that BB's success stories are not readily available for companies (Becker, 2014). Also, there are cases where the companies have removed BB and returned to traditional budgeting (Becker, 2014; Dugdale and Lyne, 2011). Thus the paragraphs below thrive on seeking an answer to the first research question;

*a) Why have SME not adopted BB widely, despite the criticisms of traditional budgeting and BB's claimed advantages?*

One of the main challenges of BB is validating its suitability across different types of companies. Rickards (2006) points out that BB is not ideal for manufacturing and merchandising companies because it is rather challenging to function without average inventory turnover to manage the production line and stock maintenance. Some researchers argue that BB is more suitable for

large multinational organisations due to resource availability (Vazonienė and Stonciuvienė 2012). On the other hand, the study of Ostergren and Stensaker (2011), illustrates a successful implementation of BB in two business units of a large multidivisional organisation. In the year 2014, Sandalgaard and Bukh concluded that companies with branch structures could eliminate budgets and embrace BB because they have the facility to benchmark internally. Therefore, there is no clear conscience about the suitability of implementation of BB based on the organisational size. In addition, Libby and Lindsay (2010), recommended using BB only in stable industries.

Rickard's (2006) conceptual paper indicates the problems that may occur if a company functions without budgets such as vague sales and production volume, which would result in lead times or unmanageable inventories. Rickard (2006) further question the ability of a firm to assess its credit risk without budgets. Generally, budgets are being evaluated by the third-party institutions such as government authorities, banks and audit firms to either determine whether the firms they have invested are being appropriately managed or assess the capability of loan repayments. Therefore, the question arises if the firms abolish budgets and embrace BB, then how they would manage to guarantee their management capabilities and assure financial investments. It is not a doubt that BB encourages relative performance measurements, but most of the firms lack comparable internal benchmarks which in return makes it very difficult for the firms (Hansen et al., 2003). As per the empirical study of Sandalgaard and Bukh (2014), one of the impediments in implementing BB is the difficulty firms face due to lack of internal benchmarks.

Reluctance for change is another hurdle where BB has to face when enforcing its implementation because firms lack confidence in abandoning traditional budgets (Rickard, 2006). Reluctance to change may arise from two sides, either from the management or low-level employees/ subordinates. Rickard (2006) points out that management may hesitate to delegate the decision making power to its associates. On the other hand, the findings of Bourmistrov and Kaarbøe (2013), illustrates that the managers are reluctant to embrace BB due to its ambitious requirements, such as dealing with risk uncertainty. Generally, managers are spoiled by being in their comfort zones, and when they are challenged to function in a more stretch zone, then there is a

tendency of reluctance to let go of the traditional budgets (Heupel and Schmitz, 2015). It is further explained by the reluctance to deinstitutionalise control and fixed targets in a company by its managers (Becker, 2014).

Richards (2006) points out that the implementation of BB can be costly due to the required fundamental changes. BB facilitates companies to become more agile, requiring a severe shift in traditional management (Bogsnes, 2016). Therefore, Vaznonienė and Stonciuvienė (2012) suggest that firms need to analyse whether BB's benefits outweigh its implementation costs. The financial costs and potential benefits of moving towards BB seem to be tricky and not precisely quantifiable, and thus an assessment of the investment advantageousness is not practicable (De Waal et al., 2011; Neely et al., 2002). De Waal et al. (2011) argue that organisations often lack the internal resources and knowledge required to initiate a change process. However, due to high uncertainty, external professional advisors are unlikely to be engaged. Therefore, BB seems yet to win confidence where the companies would embrace it with full faith.

As per the research findings of Vaznonienė and Stonciuvienė (2012), budgets are essential to steer a company's strategic management objectives; therefore, they suggest that rather than eliminating budgets, the companies should focus on finding solutions for the budgetary issues. This opinion can be found in many empirical studies which imply that traditional budgets should be improved instead of wiping it out entirely because budgets are essential for control and performance evaluation of the company (Abogun and Fagbemi, 2011; De With and Dijkman, 2008; Ekholm and Wallin, 2000; Libby and Lindsay, 2007, 2010; Lidia, 2014; Sandalgaard, 2012).

On the other hand, Becker (2014) and Ekholm and Wallin (2011) figured out that the observed companies tend to apply a hybrid model of traditional budgeting and the BB approach. It is proposed that institutionalised traditional MAC systems tend not to be entirely removed or substituted rather than function as an essential requirement for new practices (Becker, 2014; Dacin and Dacin, 2008). Budgets play a crucial role in management tasks since they are centrally managed and affect all business areas, making it even less easy to unbundle grown structures (De Waal et al., 2011; Neely et al., 2002). Additionally, cultural and organisational aspects hamper, e.g. since top

managers are scared about losing control and power, they will not highly prioritise or even try to prevent adopting BB (De Waal et al., 2011; Hansen et al., 2003). Therefore, BB is yet to gain attention from SME due to lack of universal relevant design and implementation suggestions by its peers and large organizations (O'Grady and Akroyd, 2016b).

### **7.3 Suitability of BB in SME**

Propositions were developed to steer the study to answer the research questions. However, they were not necessarily based on each principle of the BB approach because of the stem to theoretically link the BB principles with the SME specific. The study delved into the ideal characteristics of SME that would facilitate the adoption of BB, which covers general contextual factors and resource endowments of SME, governance issues and examined LC-influence as well as sectorial specifics. There is an advantage in covering a wide range of business characteristics since SME subsumes various company types. Conversely, the propositions are potentially not accurate and suitable for all SME cases. Since the propositions were developed on rather specific theoretical focus, the following paragraphs discuss possible relations among the propositions and their position towards the origin BB approach in SME in order to answer the second and the third research questions;

- b) Which BB principles would be applicable for SME and why?*
- c) What are the ideal SME characteristics that facilitate the adoption of BB?*

Importantly, led by P(9b), P(15) and P(17), this study proposes that some of the BB principles' claims, (such as close customer interaction) under certain circumstances tend to be applied unintendedly, placed differently with no explicit adoption. The reason is mainly to be seen in the cultural influence of founders, respectively owner-managers. According to the BB principles, this tendency may also lead to continuous strategic planning, but being conducted rather instinctively by owner-managers. This is a substantial difference compared to the cases of large corporations of scholars or non-scholar authors (Becker, 2014; Bogsnes, 2016; Hope and Fraser, 2003a; Lindsay and Libby, 2007). Proponents argue that BB is likely to be successful when a firm

collectively uses all its twelve principles (Bogsnes, 2016; Hope and Fraser, 2003a; Player, 2003).

However, at least for SME, the propositions indicate another picture. For instance, P(5) is determined based on lacking benchmarks. This proposition is assumed to be firmly valid for the SME operating in the traditional sector because many scholars commonly agree on the underlying findings of SME. Such as; lesser organizational divisions, more deficient (public) financial information and fewer market players (Hansen et al., 2003; Sandalgaard and Bukh, 2014; Simon, 1992, 2012). Therefore, as Max (2005) revealed, it seems unlikely that relative performance evaluation on an inter and intra-company would be an ideal application for SME. On another perspective, P(9a) aligns towards the direction where centralization of decision-making power in SME result from the tension between ownership-management (García Pérez de Lema and Du-réndez, 2007; Kotey, 2005; Richbell et al., 2006). However, this notion strongly contradicts the central BB claim of radical decentralization, and therefore it is likely to hinder BB adoption in SME.

Based on the above arguments, it remains unclear whether BB is likely to be holistically adopted as proposed by SME. Nevertheless, when considering SME specific notions, signs indicate that a hybrid or selective BB application in SME is more likely to occur. At least for large firms, extant literature underlines this fact (Bourmistrov and Kaarbøe, 2013; De With and Dijkman, 2008; Libby and Lindsay, 2010). The strong impact of owner-managers in SME on organizational development, such as BB's adoption, may open an appealing avenue for future research from an upper-echelon theoretical perspective. In Support of this notion, P(7) and P(8) propose that SME are de facto unable to adopt BB as suggested in its original form. Reliable statements which provide orientation about the costs of implementation are widely lacking. However, since large corporations may have higher qualified employees in terms of change capability and also can afford, for instance, external advisory and IT systems adaption; SME typically face both insufficient human and financial resources. This is corroborated by owner-managers' inherent reluctance against uncertain and wide-ranging investments (Wasserman, 2017; Watson and Newby, 2005; Zahra, 2005).

Disregarding the resource scarcity argument, which instead subjects the adoption likelihood, P (6) aims to open a discussion forum for BB's promised positive influence on SME performance. Some of BB proponents' central arguments are high costs of budget negotiations, the complexity of the budget process, and the fact that traditional budgets are rapidly running out of date (Hope and Fraser, 2003a). But notably, SME tend to use MAC systems in a significantly lesser extent and sophistication than their larger counterparts and generally have lower structural complexities (Halabi et al., 2010; Marriott and Marriott, 2000; Mitchell and Reid, 2000). Thus, in line with Rausch and Wall (2015), it seems questionable whether BB could deliver the same performance improvements in SME as proposed for large corporations. The notion of P(6) that BB potentials in SME may be generally lower, might be connected to the proposition on adoption likelihood by P(20a) as in the decline stage usually resources are scarce.

Moreover, Bogsnes (2016) or Hope and Fraser (2003a) state as a shortcoming of traditional budgeting that it leads to budget gambling, which can be interpreted as the occurrence of agency costs. This study demonstrates that especially for SME with high ownership-management tension, stewardship affects potentially undermine the proponent's argument. Thus, it also contributes to the questionable actual positive performance effects of BB in SME. P(10) supported this governance drawn view, which proposes that even if ownership-management tensions erode, BB is unlikely to be adopted by SME since formal steering systems are preferred to be installed (Mustakallio et al., 2002).

However, substantial differences might exist depending upon the industry where the firm operates. Scholars reveal that young high-technology businesses tend to distinguish from their traditional counterparts in two significant ways. Firstly, they are keen to attract external VC (Dávila and Foster, 2005, 2007; Granlund and Taipaleenmäki, 2005). Secondly, VC investors are actively involved with the start-up's development, predominantly replacing or complementing the founder with external managers (Dávila and Foster, 2005, 2007; Tan et al., 2013). VC investors aim to maximize their exit return and ensure perpetual dividend payments (Hellman and Puri, 2002). Therefore, these rely strongly on the early adoption of formal MAC systems (Dávila and Foster, 2005, 2009); P(12) notes that this is likely to hamper BB



adoption. Contrary, if theoretically, a VC investor and posted managers in portfolio companies' boards are proponents of BB, this might be a fruitful precondition for BB adoption. Therefore, P(11), P(13) and P(14) are formulated as contingent propositions and hence do not ultimately state about BB adoption likelihood in case of presence of external investors and managers.

Another remarkable outcome of this study is addressing the suitability of budgets during environmental uncertainty. Apart from BB proponents, some scholars have mentioned that traditional budgets do not perform well during environmental uncertainty (Bogsnes, 2016; Hope and Fraser, 2003a). In contrary, as per the study conducted by Lorain et al. (2014) in Spain, budgets are essential during a crisis because it provides a steady framework for the company in terms of testimonials and targets. Also, based on empirical evidence (Becker et al., 2015; Lin et al., 2006; Moores and Yuen, 2001), this study argues that SME seek higher formalization and centralization of decision-making power during environmental turbulences. It can be explained by the necessity of narrow and prompt monitoring control requirements in critical events (Bourmistrov and Kaarbøe, 2017; Frezatti, 2004; Moores and Yuen, 2001). Therefore, P(4a) and P(19) state, against its proponents, that BB is unlikely to be adopted in turbulent, respectively critical times. It is essential to mention that BB proponents do not specify environmental uncertainty, which can lead to different understandings and biases in examining de facto crisis or a typical volatile environment. In case of the latter, P(4b) proposes that BB could be suitable as for assessing environmental uncertainty and early crisis detection since employees are encouraged to think entrepreneurial and empowered to act on countermeasures (Laitinen, 2011). P(2) proposes higher the environmental uncertainty, higher the performance potentials of BB. Whether or not this would be true may depend upon the degree of uncertainty, as discussed above. However, in a non-acute crisis P(2) supports P(4b). Conversely, an acute crisis P(2) and P(4a) would be contradicting.

At the maturity stage, firms are generally expected to be complicated with a diversified product portfolio which attracts various markets (Masurel and Van Montfort, 2006). Despite a degree of environmental uncertainty, firms benefit from the accumulated experience and established processes. Thus, mature

businesses face a more stable and better predictable development (Masurel and Van Montfort, 2006; Su et al., 2017). Drawn from an LC-theoretical perspective and aligned with P(1), P(18a) concludes that, with increasing size, mature firms are well suitable for BB adoption. The vast majority of BB case companies are assumed as mature and, however, obviously large, which in so far can be seen as underlining P(18a). This proposition is supported by P(3) and illustrates age and LC-stage as contextual factors. Importantly, P(18b) relativizes and differentiates P(18a) as higher age may lead to establishing routines and slide into an individualized operation mode (Dávila, 2005; Moores and Yuen, 2001). However, Kallunki and Silvola (2008) state that LC-stage and firm size are not necessarily related. On a different note, this means that even if a firm stays small or medium-sized, it could be in its maturity or revival stage and established higher sophisticated MAC systems than a large but young growth firm. Furthermore, P(3) can also be interpreted as supporting P(20b) to decrease organizational complexity and shrinking customer-product-portfolio in the revival stage.

#### **7.4 Chapter summary**

The chapter pondered the first research question by reviewing probable reasons why BB has lagged in obtaining SME attention even with traditional budgets' well-known criticisms. Second and the third research questions were discussed by establishing relationships among the propositions, probable link of SME characteristics and MAC specific in SME with the BB principles. Detail assessment of this chapter compiled the findings and facilitated to confer conclusions in the following chapter.

## **CHAPTER 8: CONCLUSION**

### **8.1 Introduction**

This study's constituent objective is to theoretically nexus the knowledge of SME with BB principles. Thus, the study has undertaken a systematic literature review and then developed propositions to answer the research questions in order to fulfil the study's intent. BB recommends adopting twelve principles to change processes and leadership style to decentralize the organization and achieve higher adaptivity against environmental changes. Based on the findings, BB endures a couple of impediments that hinder its ability to replace traditional budgets, and it is not ideal for SME per se. However, the study portrays a ray of hope in adopting a hybrid version of BB in SME.

The chapter will first elaborate on the study's significant achievements and then discuss future research areas. Finally, the chapter will present the limitations of this study.

### **8.2 Achievements of the research objectives**

This study contributes to extant research so far as BB suitability for SME is contingent upon various contextual factors, governance configuration and LC-stage. This is reflected in the count and direction of propositions developed. The reason is most likely to be seen in subsumed companies' heterogeneity under the term SME (Dávila and Foster, 2009). Contrary to its supporters, an unexpected outcome is that BB seems to be not as suitable as proposed in case of high environmental uncertainty since small and medium-sized firms tend to formalize steering systems. Further, especially in turbulent times owner-managers foster centralization of decision-making power which underlines the above notion. Thus, the holistically badmouthing of traditional budgets is not supported by this study. A more differentiated and context-specific assessment would be appropriate to determine BB's benefits and shortcomings in SME.

In proposing about BB in SME, this paper is distinguished between the BB adoption likelihood at the one side and BB performance potentials at the other side. Thereby, the former is assumed to be the precondition for the latter. This two-step approach may be valuable for gaining a better understanding of the background of underlying theories. For instance, P(2) proposes a higher performance potential under high environmental uncertainty but is contradicted by P(19) for the specific revival stage. Hence, this approach may be useful for initiating scholarly activities addressing whether and how to adopt BB, particularly for SME. This study contributes to extant research positions that traditional formal budgets are not necessarily inadequate and can contribute to performance improvement (Dávila and Foster, 2005; Frow et al., 2010; King et al., 2010;). It might be particularly true for crisis companies or start-ups with active VC investors. Also aligned with earlier research notions, traditional budgets provide valuable guidance for adequate resource allocation and support goal achievement evaluation (Abogun and Fagbemi, 2011; Libby and Lindsay, 2010; Rausch and Wall, 2015; Vazonienė and Stončiuvienė, 2012).

Another meaningful research contribution is that SME does not explicitly adopt BB and utilize it in its full extent and as proposed. Instead, some principles seem to be applied solely and in a kind of-form depending on the specific organizational context (Heinzelmann, 2015). Thus, the outcome of this examination agrees with Dugdale and Lyne's (2011) notion that BB, in its original form is not the ultimate, but rather one possibility to overcome shortcomings of traditional budgets. Thereby, especially in young and owner-manager SME, these practices emerge as an inherent borne characteristic, such as close customer proximity or continuous (and long-term oriented) strategic planning. Significant determinants are seen in the resource endowment of SME and governance impacts, particularly ownership-management tensions.

For practitioners, this research contributes to earlier findings that imply that BB or a hybrid modification of the approach can increase performance in specific contexts (Heinzelmann, 2015; Weber and Linder, 2005). It is in line with O'Grady et al. (2017), which also argue for a rather adaptive mode of performance management systems. For instance, concerning SME, employees' empowerment to think more entrepreneurial and hence be more

risk-aware for environmental changes may contribute to valuable earlier crisis detection and taking action of countermeasures. Aligned with King et al. (2010), the use of MAC systems can improve SME performance. Therefore, it might be meaningful to provide external aid to SME in terms of a potential performance assessment. Umbrella associations, such as chambers of commerce, could offer such services to resource-scarce SME financed by membership fees or public administration budgets. As another group of practitioners, external management advisors could play a crucial role in drawing out how to practically implement BB since this remains widely unexplained in the literature (Østergren and Stensaker, 2011). Especially SME may require external support in configuration and customization of BB principles. However, embracing BB must be treated as a requirement and attention by SME managers (De Waal, 2005; Rickards, 2006).

### **8.3 Future research**

The outcome of this study paves the way for attractive and promising further research activities. As this examination was conceptual, future qualitative empirical research could take the propositions as a structural basis for an initial validity assessment in SME. The applied differentiation into BB adoption likelihood and BB performance potentials is an outcome of this particular study and was not identified as that explicit in other sources. Therefore, it would be well-off if future research assigns this assumption and suggests relations. Due to minimal knowledge of how to adopt BB (Østergren and Stensaker, 2011), relevant empirical findings would be most valuable for large organizations and SME. The propositions developed and first attempts of developing implementation strategies, such as of Rickards and Ritsert (2012), may provide initial impulses.

Further, aligned with Henttu-Aho and Järvinen (2013) and Sandalgaard and Bukh (2014), context-specific BB configuration requires more in-depth investigation. It yet remains unclear whether context-specific requirements for possible BB packages could be deduced. It would be meaningful to study both scholarly and practical contributions regarding SME's practice on crisis detection and potential functionality of BB. An interesting research task seemingly is to find out whether and if so, under which conditions active VC

investors might support BB in their investments. Another attractive future research area could be to assess BB's suitability, and performance potentials with more profound regard onto different rounds of financing for VC backed start-ups. Also, shedding light on BB's acceptance respectively attitude within an investor consortium would be worth scholarly effort. Referring to the propositions on ownership-management tensions, an upper-echelon based examination on inherent (and unintended) use of a hybrid kind of BB would be attractive and value-adding in SME research. Finally, among other steering systems, BB or its modified forms represent one alternative of varying value, which can contribute to the professionalization and eliminating extant weaknesses in SME management.

#### **8.4 Limitations**

This study underlies several limitations. First, the examination is almost exclusively based on literature written in English. Also, due to BB's nature and origin, some non-academic sources, namely management literature, were respected to gain the thematical frame for the research issues. Even though the literature search was conducted with the highest reasonability, the applied narrative literature search may have missed out relevant sources. Second, the chosen underlying theories may delimit the scope of scientific findings. For instance, principal-agent theory or upper echelon theory may be appropriate and promising lenses to watch through onto BB adoption likelihood and performance potentials in SME (Schäffer and Zyder, 2003). Third, this study points out that there is not yet any extant literature in the field of BB in SME. A systematic literature review was conducted to ascertain transparently and reproducibility. The choice of search words was performed as thinks best.

However, possible modified search words might have had alternative results. Despite the above methodological limitations, the study might also have some contently delaminating factors leaving BB's potential SME issues unexplored. For proposition development, MAC systems were used as a proxy for BB. As BB proponents state that BB affects an organization in multiple dimensions, literature of other disciplines, such as cybernetic or cultural sciences, might provide other perspectives with different outcomes.

Furthermore, due to most various markets SME act in, propositions may not hold for every scenario. However, the aim was to cover wide ranges for the academically frequent issued SME cases. The nature of the study is widely exploratory and inductive. Finally, propositions developed, and the discussion of results depends on the individual authors' perception and may be biased by subjectivity or naturally bounded rationality. Other authors potentially would have to find other propositions or defend a different argumentation. Therefore, the study is to be understood as remaining open for discussion of other research perspectives.

### **8.5 Chapter summary**

The chapter confers the accomplishments of the key objective and its limitations. Further, the chapter summarized how the study assessed BB's suitability in SME by reassigning the existing knowledge from empirical studies, which would not have been evident in isolation. In this course, the developed propositions lead to both research and practitioners' subsequent implications and revealed favourable impulses for future research.

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