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Budget processes and national culture – putting Hofstede to the test

An empirical case study of the Swedish and Russian sales
divisions of a Swedish multinational company

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Abstract

The aim of this study is to provide a greater understanding of how multinational companies (MNCs) adapt their budget processes across countries, and to what extent this can be explained by differences in national culture. This is investigated through a single case qualitative study, comprising 31 interviews, within the Swedish and Russian sales divisions of a Swedish MNC. The collected data is analysed using Hofstede's *Cultural dimensions model* (Hofstede, 1980). Due to a scarcity of previous studies within this field, the study is unique in terms of research method used, studied geographies, and the combination of cultural dimensions investigated. The findings are split into two parts: (i) observed differences in the budget process that can be explained by Hofstede's model, and (ii) observed differences in the budget process that cannot be explained by Hofstede's model. The main conclusion is that the observed differences that are in line with Hofstede's predictions mainly relate to the Uncertainty avoidance dimension, while the observed differences that are not in line with Hofstede's predictions mainly relate to the Power distance dimension. For the latter observations we introduce a number of alternative explanations to the observed patterns. These alternative explanations focus on: the impact of the case company's bonus system in Russia, and the impact of differences in market and regulatory dynamics between Sweden and Russia.

Key words: budgeting, management control, national culture, Hofstede

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1. Introduction

The claim by Linck (2003) that national culture is no longer relevant is bold, but probably not true. In fact, if we look at what Luhmann (1984) identifies as the systems that coordinate and maintain social and cultural influences – legal, political, scientific, religious and economic systems – we notice something interesting. This is that, despite the attention given the diminishing effect of national culture brought about by globalisation, it is essentially only economic and scientific systems that have merged in a fundamental way between nations in recent decades. Instead, legal and political systems still remain largely national in reach, and religious systems still cover essentially the regions that they have historically. Witchalls (2012) argues that in combination with, for example, a tendency for cross-border communication to be overestimated, and the propensity for most citizens to consume local as opposed foreign media, this means that national culture still remains, and will remain, an important topic to take into consideration.

For researchers of management control systems (MCS) this does not come as a surprise, even if it was only in the 1980's that cross-cultural research within the field gained real popularity (Harrison, 1999). Early cross-culture research of MCS' design in multinational companies (MNCs) was however criticised for its absence of an underlying theory of culture, or because culture was treated diffusely or incorrectly (Bhagat & McQuaid, 1983; Child 1981), and it was not until the introduction of Hofstede's cultural dimensions model (Hofstede, 1980) that a common framework to study MCS from a cross-cultural perspective became available (see for example Birnbaum & Wong, 1985; Vance et al., 1992 for early influential studies on MNCs using Hofstede). Given that budgeting "*has traditionally been a central plank of most organisations' control mechanisms*" (Otley, 1999), the apparent lack of studies investigating budgeting from cross-cultural perspective is striking. This is a primary factor justifying our study; to provide additional research to this to a largely unexplored field. Further, our study does not only add to previous research but also aims to fill current gaps in knowledge; we apply Hofstede's frameworks to the budget processes of countries with which similar cultural profiles have previously not been studied. Additionally, by choosing to conduct a single case study we hope to gain a deeper level of understanding that previous research has not. This leads us to the research question of this thesis:

Do MNCs adapt their budget processes across countries, and to what extent can this be explained by differences in national culture?

1.1 Scope

In order to operationalise the research question outlined above, we conduct an in-depth cross-country single case study of the Swedish and Russian sales division of a Swedish multinational company. The company (hereafter referred to as “DuraGroup”) produces and markets durable goods in multiple countries over five continents. The company has been profitable and also grown steadily over the last decades, presently realising a turnover in the span of SEK 5 to 10 billion. Focusing on the sales organisation, a total of 31 interviews were conducted in order to gain an understanding of the budget processes in Sweden and Russia. These interviews, the great majority of which were conducted on site at two locations in Sweden (sales office and headquarters) and one in Russia (country headquarters), were supplemented with various artefacts such as internal documents.

1.2 Outline

The remainder of this thesis is as follows. In the next section (section 2) we first introduce the concepts of budget processes and national culture, before reviewing existing literature that uses Hofstede’s cultural dimensions model to explain cross national differences in budget processes. Thereafter, in section 3, we describe the methodological approach used, specifically focusing on the rationale and the implication of conducting a qualitative study. Section 4 contains the empirical findings related to the budget process for Sweden and Russia respectively, preceded by a brief introduction of the case company. In section 5 we present the analysis of our empirical data, split into; (i) findings that can be explained by Hofstede’s model, and (ii) findings that cannot be explained by Hofstede’s model. In the final section (section 6) we summarise our key findings and highlight the implication of these, before ending with thoughts on the limitation of our study and suggestions for future research.

2. Previous research

In this section we provide an overview of previous research in our field and also frame the theoretical concepts used forthcoming. We start by outlining budgets from a broad perspective before concentrating on the *budget process*, defined as the combination of *budget setting* and *budget use*. We then move on to looking at the second theoretical concept of importance: *national culture*. This can be conceptualised and measured in a myriad of ways, but we have chosen to use the widely acknowledged *Cultural dimensions model* developed by Hofstede (1980). The framework, and also critique against it, is presented in some detail. Next, we move on to reviewing the studies (which are relatively limited in number) that have applied Hofstede's cultural dimensions model when studying the budget process, or aspects of the budget process. We sum up this section by discussing what gaps of knowledge exist, why it would be interesting to fill these gaps, and how our study can contribute to doing so.

2.1 Budgets

As a standalone term the word *budget* can have a multiple of meanings ranging the adjective meaning "inexpensive" to the noun meaning "an estimate of income and expenditure for a set period of time" (Oxford English Dictionary, 1989). Even with the latter meaning, the word can be used for anything from household to national settings. Here, however, the term budget should be understood as budgets used in a corporate setting. In this context, the Chartered Institute of Management Accountants' (CIMA) definition can serve a good starting point. They define a budget as:

A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities¹, costs and expenses, assets, liabilities and cash flows.

Furthermore, CIMA distinguishes four different types of budgets; (i) master budgets, which are defined as budgets that consolidate all subsidiary budgets and are closely connected to the financial information reported to external users, (ii) cash budgets, that focus solely on the in- and outflows of cash, (iii) capital budgeting, a process for decision-making concerning financing of investment projects, and (iv) operating budgets, which are defined as the budgets for forecasting revenues and expenses for a specified forthcoming period.

¹ While more universal definitions of budgets might open up for interpretations of the meaning of *resource quantities* it is our interpretation that in this context *resource quantities* should be understood as resources measurable in monetary terms.

In this context we limit our focus to operating budgets, and it is in this way the word budget should be understood henceforth. The remainder of this subsection will be dedicated to: (i) distinguishing the budget from other types of forward looking information, and (ii) framing the budget process.

Distinction between strategic plans, forecasts and budgets

Although there are similarities between strategic plans, forecasts and budgets it is important to distinguish the three. Anthony & Govindarajan (2007) state that both strategic planning and budgeting involve planning, but that the scope of the planning distinguishes the two. Firstly, strategic plans are typically developed before budgets and are prepared for longer periods of time, making them a frame in which budgets are developed within. Secondly, emphasis is made on the fact that budgets are structured around responsibility centres, while strategic plans are structured around product lines or other programs. This distinction is important because of the link between management responsibility and the budget. Regarding forecasting, Anthony & Govindarajan (2007) note that forecasting is simple a prediction of what will most likely happen, whereas a budget is a management plan where positive actions will contribute to the realisation of this plan. Or stated differently, “from management’s point of view, a financial forecast is exclusively a planning tool, whereas a budget is both a planning tool and a control tool”.

2.2 The budget process

Perhaps as a result of the widespread usage, the term *budget process* tends to have different meanings in different contexts. We however choose to use the broad definition “*all work efforts connected to the budget*” which is in line with Ax et al. (2002), and enables us to use their classification. They split the budgeting process into two main phases: budget setting and budget tracking. Budget setting covers the process of creating a budget from the first thought until the start of the budget year, while budget tracking covers every aspect of how the budget is used during and after the budget year. Importantly, both these phases serve as means to meet the purposes of budgeting (further described below).

Bergstrand & Olve (1996), make a somewhat different distinction splitting the budgeting process into three phases: budget setting, budget steering and budget tracking. The addition of budget steering highlights the importance of the budget not just as a tool used *ex post*, but also during the actual time when the budget is in use. For our purposes we however find it most suitable to split the budgeting process into two phases; *budget setting* covering all the events up

until the start of the budget year, and *budget use* covering all events after the start of the budget year. In the following section we provide a brief overview of the two phases.

Budget setting

With the common purpose of setting a budget, three main methods are identified in the literature (Ax et al., 2002). Discussed in some detail below, these are: the bottom-up method, the top-down method and the blended/negotiated method. Despite differences between the methods, Anthony & Govindarajan (2007) identify four common purposes of this stage: (i) to fine tune the strategic plan; (ii) to help coordinate the activities of the many parts of the organisation (ii) to assign responsibility to managers, to authorise the amounts they are permitted to spend, and to inform them of the performance that is expected of them (iv) to obtain a commitment that is a basis for evaluating a manager's actual performance.

Regarding commitment, this can arise simply as the result of the existence of a budget (Arwidi & Samuelson, 1991), but more generally the commitment is a result of the nature of the participation in the budget process (Anthony & Govindarajan, 2007). According to Hartman (2000), it is not established under which circumstances budget participation creates the desired commitment and when not, and further research is required in this field (Hartman, 2000). High commitment however is generally assumed to create greater acceptance of budget goals, have positive effects on motivation, and result in effective information exchanges (Anthony & Govindarajan, 2007).

Bottom-up

As the term indicates, with the bottom-up method budgets are prepared at the bottom of the organisation, before being integrated into the master budget (Shim, Jae K. & Siegel, 2005). According to Shim, Jae K. & Siegel (2005) a bottom-up approach to budgeting creates motivation with managers to achieve the goals of the budget, as well as higher general support of the budget within the entity as a whole. Per definition the bottom-up method also creates employee participation in the budget process. Disadvantages however include; high consumption of time, loss of control, and managers setting budgets with too low targets that they can comfortably reach, also known as *budget slack* (Anthony & Govindarajan, 2007).

Top-down

With a top-down method on the other hand, budgets are set at senior levels of the organisation and then delegated down through the organisation. Considerations such as overall strategy, resource constraints, and competition determine the budget (Shim, Jae K. & Siegel, 2005).

Downsides of this approach however include; lack of necessary knowledge among senior management and the creation of motivational problems among lower level management. According to Anthony & Govindarajan (2007), the lack of commitment (due to a lack of participation) on the part of the budgetees is a serious issue that in fact causes the top-down approach to rarely work. Instead Anthony & Govindarajan (2007) prescribe a blended approach (discussed below).

Blended/Negotiated

As the name suggests, blended (or negotiated) method is a combination of the bottom-up and the top-down approach. Here the budgetees prepare the first draft of the budget (bottom-up) but do so with the established guidelines of managers (top-down) (Anthony & Govindarajan, 2007). For this method to be successful managers have to strike a balance between running a “hard-headed” and a fair approval process (Anthony & Govindarajan, 2007).

Budget use

Once we move into the time period covered in the budget, the budget also takes on the role as a tool to control operations (Bergstrand & Olve, 1996). According to Shim, Jae K. & Siegel (2005), in this phase the budget should be seen as a means of controlling and reviewing future operations and results. Although it should be noted that budget use is not *ex officio* a part of the budget process (budgets could simply be set and not given any more attention after that), the control function is considered one of the most important uses of the budget (Bergstrand & Olve, 1996).

In short, the budget use phase can be summarized as comparing the budget to reality and adapting the subsequent behaviour accordingly (Bergstrand & Olve, 1996). Although budgets generally run for a calendar year follow ups can be done continuously, with monthly such being most common (Ax et al., 2002). A central concept in this context is deviation (defined here as the difference between budget and outcome), which is used as the basis for comparisons (Ax et al., 2002). The recognition of these deviations creates opportunity for attention and action, and also contributes to gathering of knowledge useful for future budget setting (Bergstrand & Olve, 1996). According to Ax et al. (2002) the main purpose of budget use is: (i) to provide groundwork for future budgets, (ii) be a tool to analyse differences in order to put in actions, (iii) provide grounds to hold someone responsible for developments, (iv) provide information as a basis for further discussion and (v) provide information for reward systems.

2.3 Concept of national culture

In this subsection we start by reviewing ways in which national culture can be recognized and measured, before moving on to describe the model of our choice; the *Cultural dimensions model* developed by Hofstede (1980).

Kluckhohn and Strodtbeck (1961) perform a study with a US-sample identifying different *value orientations*, based on responses to five questions of “common human concern”. Although the answers do not provide the full explanation of culture, the answers provide insight into possible parameters to measure culture through. Trompenaars (1993) creates a seven-dimensional model (partly based on the work of Kluckhohn and Strodtbeck, 1961) to measure national culture. The model is created in part as a business tool (Trompenaars himself being a management consultant), and he considers it particularly relevant for international business studies. It is however not that widely used and Hofstede (1996) for example criticises it claiming that only two of the seven dimensions can be clearly confirmed statistically. Also Schwartz (1992) makes an attempt to through a quantitative method frame national culture.

The indisputably most widespread way to frame national culture (Bond, M.H. 2002), and perhaps also most widely known outside academia, is however the *Cultural dimensions model* developed by Gerard Hofstede, (Hofstede, 1980). Between 1967 and 1973 while working for the corporation HERMES, later revealed to be IBM (Hofstede and Bond, 1988), Hofstede conducted a survey with a massive 116,000 questionnaires in 20 different languages, with a total of 88,000 respondents in 66 countries (with 50 different occupations). Questions related to issues such as perceptions, personal goals and beliefs and demographics were asked, where Hofstede’s interest was focused on questions relevant to values or “...a broad preference for one state of affairs over others” (Hofstede, 1980). Based on the scores he identified four different dimensions along which employees of different countries could be classified, which in turn represented differences in national culture. The four dimensions are; Power distance (PDI), Individualism-collectivism (IND), Masculinity-femininity (MAS) and Uncertainty avoidance (UAI). The concept of culture as such, Hofstede defines as “*the collective programming of the mind distinguishing the members of one group or category of people from other*” (Hofstede 1984).

Before covering critique of Hofstede’s model we will provide a brief overview of the four dimensions in the model:

Power distance describes the extent to which less powerful members of a society expect, and are willing to accept, unequal distribution of power. Hofstede (1980) suggests that the basic

issue involved here is how inequalities are handled among people. In societies displaying a high degree of Power distance people accept a hierarchical order in which everybody has their place without further justification, while in societies with low Power distance people will demand justification of differences in power distribution and strive to equalize the differences (Hofstede, 2005)².

Uncertainty avoidance describes the extent to which members of a society try to avoid uncertainty and ambiguity (Hofstede, 2005). Uncertainty about the future is a basic fact of human life (Hofstede, 1980), but the central issue here are attitudes towards this uncertainty and how, and to what extent, people just let the future happen or try to control it (Hofstede, 2005). In countries with a high Uncertainty avoidance scores, rigid codes of belief and behaviour are created, and intolerance towards unorthodox behaviour and ideas are displayed. Weak Uncertainty avoidance societies on the other hand display relaxed attitudes and “practice counts more than principle” (Hofstede 2005).

Individualism-collectivism describes the prevailing relationship between the individuals and the collective in a society (Hofstede, 1980). In an individualistic society there is a preference only for loosely-knit social networks and individuals are expected to take care only of themselves and their immediate families, while in a collectivistic society emphasis is put on the group (Hofstede, 2005). Another way of explaining this dimension in a simplistic manner relates to the degree to which members of society define their self-image in terms of “I” or “we” (Hofstede, 2005).

Masculinity-femininity refers to the extent to which a society displays the mainly male socialisation pattern of being assertive, versus the female socialisation pattern of being nurturing (Hofstede, 1980). More concretely, masculine societies will show a higher preference for achievement, heroism, and material reward for success, compared to female societies that will favour characteristics like cooperation, modesty, caring for the weak and quality of life (Hofstede, 2005).

While also a testimony to its success, it should at this point be noted that Hofstede's model has been the subject of widespread criticism during the years. Osland & Bird (2000) criticize Hofstede's model because it relies too much on stereotyping and simplification, which in their view can at worst even create a mental frame that is hard to look beyond. Explanations to what they claim other researchers have described as paradoxes are suggested, including “the tendency

² It is in this context worth noting that a country with unequal distributions of power or income like the U.S. (CIA World Factbook, 2013), does in fact not have to display a high Power distance, key being the concept of *justification* in the measure.

for observers to confuse individual with group values". They also present their concept of value trumping, described as "In a specific context, certain cultural values take precedence over others. Thus, culture is embedded in the context and cannot be understood fully without taking context into consideration". Critique of the fact that Hofstede's strict view of national culture can hinder the understanding of other types of culture is also common among many other scholars. See for example (Gooderham & Nordhaug 2001, Harrison & McKinnon 1999, McSweeney 2002 or Myers & Tan 2002) for extended discussions on this issue.

Moreover, Baskerville (2003) criticises Hofstede's model on a number of points including: the methodology as such to measure culture, the western bias of measurement practices and the equating of cultures with nation states. Baskerville (2003) also questions the reasons for the models rejection by anthropologists and sociologists. In a swift reply in the same journal, Hofstede however himself denounces this critique in essence by labelling it as irrelevant (Hofstede, 2003). ("Baskerville (2003) does not realize that there exist different paradigms in the social sciences about the meaning of "culture", leading to different research approaches. Her arguments are therefore largely irrelevant to cross-cultural accounting research").

Magala (2004) brings up the fact that Hofstede doesn't take into account the concept of multiculturalism, and also claims that there is a bias in the questions used to determine attitudes. As multiculturalism is a relatively new concept (Magala 2004), this should perhaps not be seen as critique against Hofstede's model as such but rather critique towards its usefulness in today's world. In this context we also note that Leung & Bond (1989) review Hofstede's methods and suggest changes primarily to the way Individualism is measured. Søndergaard (1994) however defends the original methods of the theory stating that Hofstede's model is in many circumstances used in an all too general context.

Despite this non-negligible range of critique it should however be emphasised that Hofstede's model has several factors pointing very much in its favour, both compared to other studies and as a standalone study. From a standalone perspective we note the relevance of the study (proved by its wide use) and also the extreme scope of the data collection. In relation to other studies, Hofstede's main merit is perhaps the fact that it has been re-conducted by numerous other researchers (see for example Søndergaard, 1994 for an overview of replication studies) with different samples generally confirming Hofstede's findings. Last but not least, it is also worth pointing out that of the fiercest critics of Hofstede's model, none are able to produce any useful alternative models.

2.4 Concept of corporate culture

In addition to national culture it is certainly possible to argue that other constructs of culture exist. While still defining culture as “*the collective programming of the mind that distinguishes the members of one group or category of people from another*”, Hofstede (2001) introduces the concept of *corporate culture* as the cultural construct existing in corporations parallel to the national culture. However, for our purposes we believe that this expansion of the concept is not necessary. The reasoning is quite simply; since we only focus on *differences* in the budget process between different parts of the same company, corporate culture can per definition not be the variable explaining the observations. Instead, drawing on Hofstede’s (2001) claim that national culture and corporate culture collectively exhaust the concept of culture within corporations, we limit ourselves to only using the concept of national culture.

2.5 Applying Hofstede’s four-dimensional model to budgets

The next step is to link budget processes with Hofstede’s model; how potential cross national differences in budget processes can be explained by Hofstede’s cultural dimensions model. Since previous research in this field is very limited, we start with providing a brief overview of studies that touch upon this issue or similar ones, before providing a more detailed look at studies directly related to our research question.

While numerous studies use Hofstede’s model as a way to prescribe or to better understand management control systems (MCSs) in national settings, studies that approach the question from a cross-cultural perspective are more limited in number (Harrison, 1999). Among these studies we note Chow et al. (1999) that looked at eight MCS characteristics of Japanese and U.S. companies operating in Taiwan, and found that both groups of companies adapted their MCSs to suit Taiwanese culture (Japan, Taiwan, and the U.S. differing on a number of counts in Hofstede’s model). Interestingly, one of the MCS characteristics studied was *participative budgeting*, where they (as expected) found that both U.S. and Japanese companies adopted the degree of budget participation for it to be more in line with local Taiwanese practices. Given that the U.S. is a low Power distance country while Japan and Taiwan are both mid-high Power distance countries, this mainly meant that U.S. companies decreased the degree of budget participation in their Taiwanese operations while Japanese companies left it basically unchanged. Moreover, O’Connor (1995) also makes observations in line with the above study. As a part of a study investigating the usefulness of budget participation in Singapore (a high Power distance country) participation in the budget is found to be low within the sample. *Contrario*, Lau & Buckland (2000) (also as a part of a wider study) find support for their

hypothesis that budget participation will be high in Norway (Norway being a low Power distance country). All of these findings are in line with what Hofstede predicts.

Harrison (1992) and Lau et al. (1997) open up for the possibility of several of Hofstede's dimensions simultaneously affecting various aspects of budgeting. More specifically, both studies hypothesize that high Power distance and high Individualism (and low Power distance & low Individualism) would have cancelling effects on the degree of budget participation. Both studies compare Australia (a low Power distance, low Individualism country) and Singapore (a high Power distance, high Individualism country) and find no significant differences between the two, giving support to their hypothesis. However, while this is surely an interesting question to study, we chose to look at the dimensions in isolated contexts. This is in line with how the previous stream of research most relevant to our study (described further down in this section) has approached the matter, and it is the only viable option given that our research focuses only on two of Hofstede's dimensions.

Before moving on to the studies that look specifically at budget setting and budget use from a cross cultural perspective using Hofstede's model, a brief look at the influential study of Daley et al. from 1985 is needed. Although not specifically using or referring to Hofstede's cultural dimensions model, they develop a framework to measure twelve aspects of financial control systems (of which budgets are a major part), and use it to find and analyse differences between Japanese and U.S. companies (using an extensive sample). Based on the hypothesis tested (some confirmed, some disconfirmed) they draw four main conclusions, which are presented in Table 1.

Using parts of the framework developed Daley et al. (1985); Ueno & Wu (1993) conduct a quantitative study comparing the influence of culture on six aspects of the budget process, using an extensive sample of U.S. and Japanese companies. For all six aspects budget process Ueno & Wu (1993) chose to use the Individualism-Collectivism and/or Uncertainty avoidance dimensions as the potential explanatory factors. This selection of these explanatory variables is motivated by simple logical reasoning. In Table 1 the six hypotheses, the dimensions assigned to these, and the results are presented in detail (note that this is an extension of Ueno & Sekaran (1992) which reports the same data). Inspired by Ueno & Wu (1993), Chang et al. (1995) also use the framework developed by Daley et al. to study the impact of national culture, defined using Hofstede's model, on budget processes. Using a sample of Japanese and Taiwanese companies they test six hypotheses (essentially the same ones as Ueno & Wu (1993) but formulating them somewhat differently), but link them to other dimensions of Hofstede's

model. In Table 1 the six hypotheses, the dimensions assigned to these, and the results are presented in detail.

Author	Findings	Comment
Daley et al. (1985)*	Japanese managers and controllers prefer less participation in the budgeting process than their American counterparts	Budget participation can clearly be linked to the Power distance dimension. Given that Japan has a higher score on this than the U.S., Daley et al.'s findings are in line with what would have been expected had Hofstede's framework been applied
	Japanese managers and controllers have a more long-term** planning horizon than their American counterparts	Long term planning horizon can clearly be linked to the Uncertainty avoidance dimension. Given that Japan has a higher score on this than the U.S., Daley et al.'s findings are in line with what would have been expected had Hofstede's framework been applied
	Japanese managers and controllers view budgets as more of a communication device than their American counterparts	Budgets as more of a communication device can clearly be linked to the Individualism dimension. Given that U.S. has a higher score on this than Japan, Daley et al.'s findings are in line with what would have been expected had Hofstede's framework been applied
	Japanese managers and controllers prefer more budget slack than their American counterparts	Given Daley et al. (1985) do not explicitly refer to Hofstede's framework and it is not clear to which of the dimensions budgetary slack should be linked to, we cannot say whether this is in line with or not in line with Hofstede's framework

Author	Hypothesis	Research countries & scores	Results
Ueno & Wu (1993)	The higher the score on IDV, the higher the degree of formal communication and coordination in the budget planning process	IDV: Japan 46, U.S. 91	Hypothesis confirmed (in line with Hofstede)
	The higher the score on UAI, the more development of long-range budgets**	UAI: Japan 92, U.S. 46	Hypothesis disconfirmed (not in line with Hofstede)
	The higher the score on IDV and the higher the score on UAI, the greater the importance of formalized rules and procedures in the budget planning process	IDV: Japan 46, U.S. 91 UAI: Japan 92, U.S. 46	Hypothesis disconfirmed (not in line with Hofstede)
	The higher the score on IDV and the higher the score on UAI, the higher the degree of budget slack building	IDV: Japan 46, U.S. 91 UAI: Japan 92, U.S. 46	Hypothesis confirmed (in line with Hofstede)
	The higher the score on IDV, the greater desire for controllability of the budget	IDV: Japan 46, U.S. 91	Hypothesis confirmed (in line with Hofstede)
	The higher the score on IDV, the less the long-term horizon focus on performance evaluation**	IDV: Japan 46, U.S. 91	Hypothesis confirmed (in line with Hofstede)
Chang et al. (1995)	The higher the score on MAS and the higher the score on IDV, the higher the degree of formal communication and coordination in the budget planning process	MAS: Japan 95, Taiwan 45 IDV: Japan 46, Taiwan 17	Hypothesis disconfirmed (not in line with Hofstede)
	The higher the score on MAS and the higher the score on IDV, the higher the degree of budget slack building	MAS: Japan 95, Taiwan 45 IDV: Japan 46, Taiwan 17	Hypothesis confirmed (in line with Hofstede)
	The higher the score on MAS and the higher the score on IDV, the higher the degree of controllability of budgets	MAS: Japan 95, Taiwan 45 IDV: Japan 46, Taiwan 17	Hypothesis disconfirmed (not in line with Hofstede)
	The higher the score on MAS and the higher the score on IDV, the less the long-term horizon focus on performance evaluation**	MAS: Japan 95, Taiwan 45 IDV: Japan 46, Taiwan 17	Hypothesis confirmed (in line with Hofstede)
	The higher the score on UAI, the greater the use of broad time horizons in the budget planning process**	UAI: Japan 92, Taiwan 69	Hypothesis confirmed (in line with Hofstede)
	The higher the score on UAI, the more structured the budget planning process will be	UAI: Japan 92, Taiwan 69	Hypothesis disconfirmed (not in line with Hofstede)

* Note that Daley et al. (1985) does not explicitly use Hofstede's framework in their study. However, the framework can easily be applied on the results

** Note that long range/broad time is defined as > 1 year

Table 1. An overview of previous cross-cultural studies of the budget process using Hofstede

This scarcity of previous studies poses a few problems for us forthcoming. These problems mainly relate to the issue of lacking guidance in terms of research design, and difficulties in analysing data due to limited previous lines of reasoning for us to draw upon. However it also provides possibilities to fill a major gap in the literature. Firstly, with a qualitative approach we hope to be able to provide an in depth reasoning dimension that the previous quantitative studies have not been able to. Secondly, our selection of countries is not only different from the ones selected in previous research as such, but also very different in terms of (i) their scores in Hofstede's model, and (ii) the degree to which they differ between each other in terms of scores on Hofstede's model (on the dimensions we study). Chang et al. (1995) for example used Japan and Taiwan as high and low Uncertainty avoidance countries despite that they have quite similar scores on this dimension (92 compared to 69).

2.5 Going forward

In addition to providing an overview of the budget process, we have in this section introduced the concept of national culture. We argue that Hofstede's cultural dimension model (Hofstede, 1980), is the most suitable tool to conceptualise and measure this. The subsequent review of previous research has shown that only a limited number of studies have used this model to explain cross cultural differences in budget processes. This is a primary factor justifying our study; to provide additional research to this largely unexplored field. It our belief that we with this can contribute to an increased understanding of how MNCs could adapt their budget processes to better match the implications that follow from different national settings for business operations.

3. Methodology

3.1 Research design

We have chosen to perform an in-depth single case qualitative study. Qualitative research is useful when trying to differentiate or distinguish various patterns of action (Troost, 2010), and one common form of qualitative research is the case study. This form of research aims to focus on discovery, insight and understanding of how people experience the world (Merriam, 1994). This form of research also enables a holistic understanding of characteristics of real-life events and is therefore advantageous when the questions are of more “in depth” character of complex social phenomena, and when questions are formulated as “how” and “why” character (Yin, 2009). Since our organisation of study has several subsidiaries with operations and relationships worldwide in a complex social environment, we find this study form appropriate in our case. Furthermore, our aim with this study is to find out how and why we observe differences in the budget setting and budget use between two subsidiaries. In order to analyse the underlying reasons for this, in depth interviews are considered to be the best alternative (Troost, 2010). Therefore, performing an in-depth qualitative case study is deemed most appropriate. It should however be noted that designing the study as a multiple case study would also have been a possible choice, as multiple study provides a greater number of cases that might increase the explanatory power (Dubois et al. 2002). While also implying more width, a multiple study would though in our case have meant substantially less depth. In our study, which includes many interdependent variables in complex structures, we believe the best choice is to go deeper into one case, instead of increasing the number of cases. This is in line with the reasoning of Dubois et al. (2002).

There are two principal ways to connect reality with theory; using a deductive approach or using an inductive approach. A deductive approach has a chosen theory as the starting point which is then tested on empirical data, and provides guidance in terms of which empirical data that should be collected. With an inductive approach, the empirical data is the starting point. In this case an appropriate theory is chosen which can describe the available empirical data (Otley et al. 1994). Our study uses a combination of the abovementioned approaches, known as an abductive approach. Empirical data and theory is constantly reconsidered and reinterpreted as a result of each other (Dubois et al. 2002). In our study, existing theories regarding cultural impacts on the budget setting and budget use have been combined and reinterpreted by findings from our empirical data.

3.1.1 Selection of appropriate company

In the selection process of a suitable company to study, we had a number of criteria that we felt needed to be fulfilled. Firstly, it was highly important to conduct a study in a multinational company since studying a company with only domestic operations would not have given enough answers to our intended research question. Secondly, the company had to be willing to give us access both to top management, and staff in different positions, both in a local and a foreign subsidiary. Thirdly, the company group had to accept that the main collection of data would be through in-depth interviews. A suitable company that met our demands was eventually found in the form of DuraGroup. As previously mentioned, DuraGroup is a Swedish multinational company that produces and markets durable goods in multiple countries over five continents, and currently has a turnover in the span of SEK 5 to 10 billion. We did not have any previous connections within DuraGroup. This was considered positive as it meant no preconceptions about the company and its operations existed.

3.1.2 Selection of appropriate countries

The global presence of DuraGroup enables a broad range of alternatives in terms of appropriate subsidiaries for our study. Our aim is to compare two subsidiaries where the differences in Hofstede's four-dimensional model are significant, while both subsidiaries have to be of a reasonable size and comparative in terms of organisational structure. After taking all these preferences into consideration, DuraGroup's Russian subsidiary was selected as the comparative subsidiary to the Swedish organisation. Russia fulfils all of the criteria above and the choice was also encouraged by DuraGroup.

Sweden and Russia are culturally very different (Hofstede, 1980). Notable is that the two dimensions Power distance and Uncertainty avoidance represent by far the greatest index differences of Hofstede's four dimensions. Russia has an extremely high score on Uncertainty avoidance (93) while Sweden scores very low on this dimension (29). A similar scoring pattern is identified in the Power distance dimension (Russia 93, Sweden 31) (Hofstede Centre 2013). See Table 2 for a full presentation of the scores for Sweden and Russia. The budget process differences attributed to these two dimensions should therefore be significant according to theory. Our choice to focus on two dimensions is in line with previous studies, as these have focused on the dimensions where significant differences could be observed; usually two, maximum three dimensions (see for example Chang, 1995). Limiting the field of study also allows us to put more emphasis and resources on the chosen dimensions, which enables a deeper analysis and more founded conclusions. There are also, to our knowledge, no previous

research that has compared the budget process by using the dimensions Uncertainty avoidance and Power distance for any countries. Thus, our study has a potential to fill an important gap in existing literature.

Country	PDI	UAI	IDV	MAS
Sweden	31	29	71	5
Russia	93	95	39	36

Table 2. Index scores from Hofstede's four-dimensional model (Hofstede Centre, 2013). The dimensions in bold are the ones included in our study.

Referring back to Table 2, Russia's score of 93 is among the 10% of the most power distant societies in the world. This implies huge discrepancies between less and the more powerful groups of people, illustrated for example by the great importance of status symbols in Russia. It also leads to a very top-down oriented approach to organising groups of people. Moreover, Russia has an extremely high Uncertainty avoidance score, illustrated for example by the fact that it has one of the most complex bureaucracies in the world. Detailed planning and briefing is also very common in most circumstances of Russian life (Hofstede Centre, 2013).

Sweden on the other hand scores very low on the Power distance dimension. Sweden is a country associated with independence, decentralised power and equal rights. Control is disliked and managers are informal, exemplified by the fact that addressing someone on a first name basis is accepted in almost all circumstances. Sweden also has a low Uncertainty avoidance scoring. People in general believe that only few rules are necessary³, schedules should be flexible and hard work is undertaken only when necessary for a specific reason (Hofstede Centre, 2013).

3.1.3 Selection of appropriate department and interviews

The two subsidiaries needed to be similar in terms of organisational structure in order to be comparable. Since the Russian subsidiary is a pure sales subsidiary (without for example a manufacturing division), we chose to compare the Russian subsidiary with the sales division in Sweden.

³ Note that the existence of few rules should not be confused with the acceptance of not following rules.

Moving on to the studied divisions, we face the problem that people can interpret their environment in different ways. Merriam (1994) argues that when studying a relatively large number of individuals during a fairly short period of time, interviews should be the primary data. This is the approach that was chosen. Regarding the selection of interviewees, it was desirable to conduct interviews with employees from the entire organisation involved in the budget setting and budget use in different ways; from sales staff via management teams and business boards, up to group management and owners. This required interviews with staff of the two subsidiaries as well as interviews with staff working at Headquarters. At the initial meeting we received an organisational chart and were asked which employees we intended to interview, both in Sweden and in Russia. In order to get everyone's perceptions concerning the budget setting and budget use, we requested to conduct interviews with employees representing all of the levels within the organisation. Our request was approved both in Sweden and in Russia and resulted in very extensive and credible data.

3.2 Data collection

In total we have conducted 31 interviews: five at the headquarters, twelve in the Swedish subsidiary and fourteen in the Russian subsidiary. A few supplementary interviews with employees without any direct influence in the budget process were also carried out in order to get a deeper understanding of how DuraGroup is linked together. We also received hand-outs; written documents such as budget planning charts, information flow paths and other internal documents relating to the budget process.

In order to identify a relevant question framework comprising the budget process and applicable to Hofstede's dimensions, our starting point has been Daley et al. (1985). They have developed a framework to measure various aspects on budgeting and control systems, tested on Japanese and U.S. companies. An essential part in this study, that has formed parts of our question framework, is defined as the *budget development* which addresses the advisability of setting budgets with the participation of individuals affected by the budget. Mainly this covers questions relating to the budget setting method used (i.e. bottom-up, top-down or negotiated) and how communication channels are used within the organisation. The framework also includes factors related to budget use, *the controllability of the budget*, which has also provided the basis in our study. The questions address the advisability of budget controls such as obtaining (follow-up) budget reports, analysis of the budget outcome and managers' explanations for deviations from the budget etc. The question framework presented by Daley et al. (1985) has been used as the basis for the formulation of our question, which is in line with

what previous studies of the subject have done (see Ueno & Wu, 1993 and Chang et al. 1995). It is important to clarify that the framework by Daley et al. (1985) has however been used only as a starting point in formulating our questions. Since this framework has a much broader content than just budget setting and budget use, we have adapted and adjusted it to better suit our specific research question. The motivation and analytic orientation factors have been eliminated and more emphasis has been put on the decision paths, follow-up and budget as a management tool. Inspiration for the formulation of the latter questions is also taken from Milani (1975).

The interviews were conducted at three different points in time at three different geographical locations; a branch office in Sweden, the global headquarters (located in Sweden) and the Russian headquarters. The majority of the interviews were carried out within a quite compressed time frame, starting in the beginning of October and finishing in the beginning of November. In addition to this, a limited number of follow up telephone interviews were conducted. This gave us time to carefully review and summarise the material gathered before getting additional details to clarify certain details.

All interviews were started with a brief presentation of our study in order to give the interviewee a basic understanding of the context. Throughout the interviews we used a template with standardized questions that served as a checklist of areas we wanted to cover, and included a description of the interviewee's role in the company and their overall role in the budget process. More specific questions were adapted for the specific individual depending on his or her role in the company and there was without exception room for conversations of an open, discursive nature. The order of the questions was also changed depending on the respondent's answers. By using a template (a traditional schematised and standardised interview guide), but keeping interviews more open and less structured, respondents are enabled to define reality in their specific ways which was the purpose of the interviews (Merriam, 1994). This is the reason why we chose to conduct semi-structured interviews in our study. Each interview lasted between 30 minutes up to over an hour, with an average of 45 minutes. The interviews were conducted at the respective offices and both the authors participated and took notes during all interviews, the exception being the interviews conducted by phone. The choice was also made to select which interviews to record depending on the specific environment and interview person. Some of the interviewees are for example frequently mentioned and cited in Swedish business press, and are therefore likely to avoid "sharp statements" when recorded. Therefore, in order to enable free speech and honest answers we made a conscious choice to not record top management, and also other persons who objected (or hesitated) when asked to be recorded. Time was scheduled between each interview for internal discussions and processing of the

interviewee's answers in order to avoid misinterpretations, and at the same to benefit from having information still fresh in mind. One important advantage (discussed by Trost, 2010) of conducting almost all interviews physically was the possibility for us to observe expressions and body language of the interviewee, enabling the interviewers to capture important nuances and reactions.

3.3 Data analysis

Throughout the study we gathered an extensive set empirical data, based on 31 interviews as well as internal documents and annual reports. In order to structure the data, we labelled and divided all interviews into different maps referring to country and position. Subsequently we coded the interviewees' answers and placed them in key subgroups. This process facilitated the identification of interesting citations, statements and other types of useful patterns. In this way we also ensured that important information was not omitted during the process ensuring trustworthy empirical results. Further, no major difficulties in mapping the interviewees' answers and sorting out relevant and irrelevant information was encountered since: (i) empirical data was reviewed and discussed continuously during the process, and (ii) the interviews were guided in line with the theoretical frameworks.

3.4 Quality of the study

3.4.1 Reliability

The basic concept of high reliability is based on standardisation, gained through cross-sectional studies measuring the values of specific variables. Thus, high reliability is reserved for quantitative studies. Since qualitative studies have a low degree of standardisation, the credibility of this study form is a problem. In order to increase the credibility of the data collected, extra attention needs to be given the four components of the compounded concept reliability (congruence, precision, objectivity and constancy) (Trost, 2010).

Congruency addresses how to get similarity between questions that intend to measure the same thing. In order to obtain a high congruency, the same basic structure for the interviews, in terms of questions asked and the order of them has consistently been used. Precision relates to the interviewer's way to register answers. A relatively high precision can be ensured since we after each interview block wrote out the notes. Objectivity deals with different interviewers' way to register things. In order to obtain a balance between objective and unobstructed answers we have recorded interviews when there was no objection to, or hesitation towards, this approach. Both authors were present during the interviews and internally we discussed the answers after

each interview. Thus, we have been able to verify high objectivity. Constancy addresses the time aspect; this should not affect the result (Troost, 2010). The interviews were conducted during a limited period of time (the intense interview period lasted for one month) which is in line with a high consistency.

3.4.2 **Validity**

Validity should in this context be understood as to what extent what gets measured really is what is intended to be measured. Validity can be divided into internal and external validity (Troost 2010). Internal validity addresses to what degree the result matches reality. Since validity must be assessed through the interpretations of the researcher's experiences, it is important to try to convey these interpretations truthfully. In order to increase the validity, both authors were present and took notes during all interviews, and tried to ensure honest answers by guaranteeing anonymity, minimizing for example the risk of misinterpretations. Interviews were also conducted with several persons holding the same position and were complemented with a number of artefacts such as internal documents that were provided by DuraGroup. Furthermore, secondary data such as annual reports and public documents were also used. The approached used as described above is an example of so-called information triangulation (Merriam, 1994). Continuing with external validity, this addresses to what degree results can be generalised from a study (Merriam, 1994). In our single case study, the aim has been to go deep into one single multinational company and we have not had the intention to find results that are generalisable. Our studied company runs its business in a specific way, without major consideration to other players. It is therefore not possible to draw general conclusions with high accuracy from our result. This is in line with previous research which argues that a single case study often offers poor basis for generalising, and is thereby associated with low validity (Yin, 2009).

3.4.3 **Ethical aspects**

In a relatively early stage we got complete access to all relevant parts within DuraGroup. This includes the entire sales divisions in Sweden and Russia, as well as several members of the management team, including the CEO & Co-founder/Owner. Our contact person was the global CFO. A requirement from the company's side was that our study would be presented anonymously. From our perspective, this requirement has had positive effects on the empirical data since we could ensure that the interviewees gave an objective view of reality. This objectivity has been a prerequisite in order to answer our research question. Thus, company name and the names of the interviewees do not occur in the study.

4. Empirics

In this section we describe the empirical findings of our case study, presenting it using three main sections and a number of subsections. We start by providing a brief overview of DuraGroup describing their operations, their organisational structure, and their use of forward-looking planning. We then continue with detailed descriptions of the budget planning process, presenting the findings from Sweden followed by the findings from Russia. Finally, we move on to describing budget use, also here presenting the findings from Russia followed by the findings from Sweden. In order not to reveal the true identity of the company and protect the integrity of the interviewees, we have chosen to limit the presentation of specific details about the company and also refer to interviewees simply as “an interviewee” (rather than by their titles) when deemed necessary.

4.1 DuraGroup: A Swedish MNC in the durable goods sector

DuraGroup is a Swedish multinational company producing and marketing durable goods in multiple countries over five continents. The company has grown steadily over the last decades and presently has a turnover in the span of SEK 5 to 10 billion. The company remains highly profitable in spite of the fact that a large portion of recent growth has come from acquisitions. DuraGroup’s overarching goal is to become one of the leading global players in their industry and the most reliable one on every market it is present. DuraGroup has number of strategies to achieve these goals, including: exploiting current scale and financial strength, rapidly expanding the sales division, and continuing its aggressive acquisition strategy. The company has three core values that influence their business practices: quality, availability and delivery reliability.

4.1.1 Organisational structure

The organisational structure of DuraGroup is illustrated in Figure 1. The company uses a geographical organisational structure where every country makes up a separate area of responsibility (and legal entity) managed by staff located in that country. These national entities can comprise production facilities, distribution centres and sales divisions depending on the operations present in the specific country⁴. In Sweden operations include both production and sales, while in Russia they only comprise sales. In addition to certain support functions (IT, finance etc.) and group management that governs all operations, the different countries have

⁴ In reality the organisational structure is somewhat more complicated with cross functional groups handling certain issues related to for example logistics and production, essentially creating a matrix structure. As this doesn’t have any practical influence on the work of the sales divisions in this context, it is not discussed further here.

individual so called *business boards* (hereafter just “BB”) that act in much the same way as boards of independent companies. They are made up of the local managing director (local MD) and a couple senior individuals representing the group. “We monitor the subsidiaries KPI’s such as sales, debt levels inventory etc., and at the same time give them support to run the businesses” (BB-member).

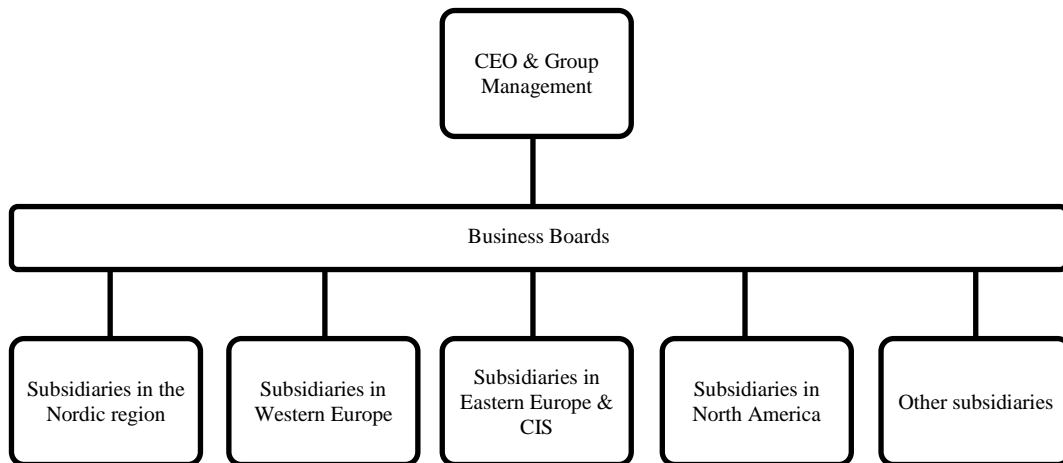


Figure 1. An overview of the organisation structure in DuraGroup

4.1.2 Budgets from a HQ perspective

In all subsidiaries of DuraGroup budgets are created and used for one year at a time. With the fiscal year of the group running from the 1st of May until the 30th of April, this means that the group budget is planned and set during the spring before being put into use in the beginning of May (the group budget is essentially the sum of all subsidiary budgets – described in detail further down in the text).

From the perspective of the headquarters, the budget planning and budget use is relatively limited. With the exception of the CEO & Co-founder/Owner, the HQ as such is not involved in the budget planning and budget use of the subsidiaries. Instead this is done solely within the subsidiaries, and all “external” involvement is formally limited to the business boards (although these consist of members of the group management). From a strict group perspective it is only the finance department and chiefly the Group Controller that are involved in the day-to-day budget planning and use in the subsidiaries.

Even if the budget planning and budget use of the subsidiaries per se doesn’t involve the group management, the information conveyed in them and their outcomes are of course important

tools in the general management of the company. Not even in the consolidated form does the budget however carry any automatically useful information from a group perspective. Instead, both figures related to sales and variable costs are adjusted to give what could be labelled a *forecast* rather than a *budget* (see section 2.1 in previous research for clarifications regarding the distinction). This forecast is then used internally for planning purposes and externally in discussions with for example banks. The communication towards the market is however less extensive. “We don’t want to communicate too much externally. It just creates a lot of speculation which is negative for the firm” (CEO & Co-founder/Owner).

In terms of budget philosophy, *simplicity* is the key word HQ emphasises repeatedly when it comes to both budget planning and budget use. “Einstein once said that everything should be made as simply as possible and that’s how we look at budgets. We continuously try to make the process simple, to avoid too much time being spent on it, and to avoid that the budget planning starts too early” (CEO & Co-founder/Owner). Moreover, the budgets for many sales divisions are essentially only revenue budgets with costs not calculated per se, but simply as figures being the result of unchanged margins and sales increases (fixed costs kept unchanged except for in cases of planned capital expenditures). “I don’t really look too narrowly at all this, the important thing is that increase in sales is bigger than the increase in costs” (CEO & Co-founder/Owner). Another aspect that is highly emphasised is that a set budget is never changed. “It creates too much work and the benefits are only marginal” (CEO & Co-founder/Owner).

Trying to keep things simple in a multinational company is however not entirely straight forward. “We try to streamline the process and we made some achievements in terms of the length of the process, but in terms of time used it’s still quite extensive. At the same time I think that’s the only way it can be done” (Group Controller). An interviewed BB-member continues: “What is presented to the management is a one page document but this is split into detailed numbers which the BB analyses. On the surface it might look like something that takes 15 minutes to do but in fact it takes a lot of time” (BB-member). Finally, as an answer to the perhaps sometimes overlooked question of what is the actual purpose of using a budget, the CEO & Co-founder without hesitation answers: “It’s a tool that makes it simpler to control and follow up operations” (CEO & Co-founder/Owner). It should not be seen a forecast (even if is as a good source of information for creating a forecast), nor should it be seen as a tool to create motivational effects, according to the CEO & Co-founder/Owner.

4.1.3 Growth vision

In addition to the yearly budget, DuraGroup also has what is called the *growth vision* – a three-year plan that maps out the target growth for revenues, both for different products and for different markets. “This is how we communicate our ambitions internally. It covers each market and gives information on quite a detailed level” (CEO & Co-founder/Owner). He continues, “The budget model has been the same since the 70’s, but the growth vision was something that we added around 2005 as the company had grown so much” (CEO & Co-founder/Owner).

The document, which is about four pages in length, combines detailed information on the current situation combined with forward-looking objectives. The information covers areas such as market trends, competition, internal issues, and acquisitions, as well as supplies general strategic comments. The information is split per region (but not individual country), and per product group (but not per individual product) and presented in continuous text rather than through multiple graphs and tables. The following sentence serves as an example of the way it is written: “We can see large possibilities to expand turnover in Middle East, Asia, Africa and Australia. The acquisition of XYZ has given us a strong platform to grow in XYZ projects and we have received interesting orders from XYZ. Our new production and storage facility of xx square meters gives us the possibility to realise our goal of growing xx% per year in the region”. According to the CFO, “the vision is a major underlying idea that affects all budgeting”.

An interviewed BB-member explains that the overreaching vision communicated in the growth vision comes from the CEO & Co-founder/Owner, but that the BB’s are responsible for setting the specific goals of the different regions. Primarily they use GDP-forecasts and industry data to set the targets. As previously mentioned the plan stretches three years into the future, but it is updated every year. “It is then presented at a yearly conference in Sweden or Germany attended by the whole management, all BB-members and all the country MDs. The complete growth vision is not shared further, but idea is that the country MDs will share the information concerning their region with his or her staff” (BB-member).

4.2 Budget planning Sweden

From an overall perspective, we observe that in Sweden the budget is essentially planned and decided high up in the organisation before being distributed down through the sales division. There is little, if any, room for managers or employees further down in the organisation to influence the budget, nor is there time or resources devoted to giving them room to influence the budget. Another major finding is that while lower level managers and employees are given practically no power to influence the budget as such, the budget provides a main goal only in

terms of revenues, and leaves room for individual decisions on how to reach the goals. Only revenues are calculated per se, and costs are simple estimated as what is automatically given by combining the estimated sales increase with an unchanged cost structure. With regards to time, the budget process in Sweden is relatively compact and at the very end of the fiscal year, starting in February and ending at the latest in the end of April (when the new fiscal year starts). Finally, we observe that the knowledge about the growth vision is very high but that it is still not given very much importance. For a more detailed overview of these topics we use Figure 2 to, in a chronological manner (using five steps), describe the interactions between the different levels in the organisation. This is followed by a detailed overview of the time structure of the budget process before we end by looking into the role of the growth vision.

4.2.1 Budget planning process

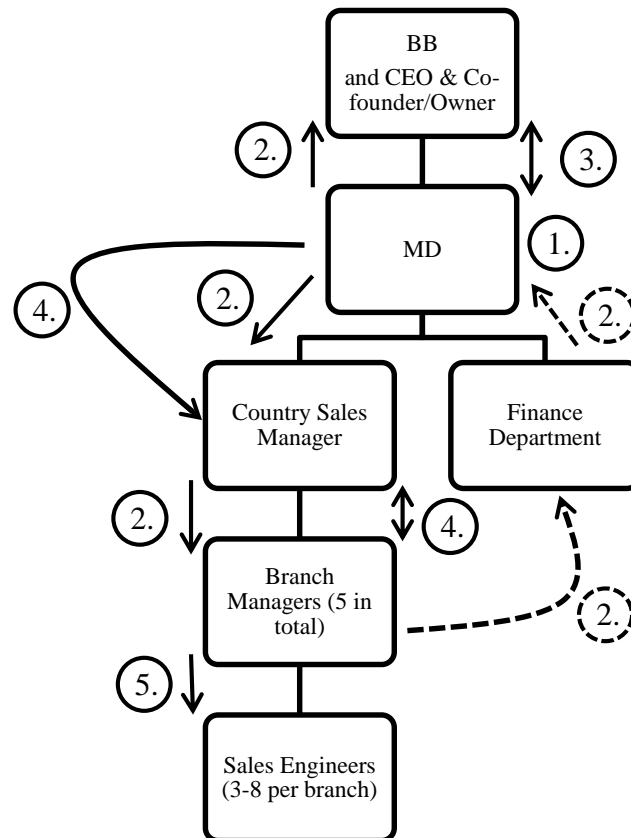


Figure 2. An illustration of the interactions between different levels in the Swedish organisation

1) In the first step of the budget process, the country MD initiates the budgeting process and starts formulating the goals of next year's budget. Using previous years outcome, external market signals (industry indicators etc.), and data on competitors, which he compiles himself,

he creates a preliminary sales budget suggestion. The main focus of this budget is on the revenue side, with the costs more or less coming automatically depending on sales; fixed costs are in most cases assumed to stay the same and variable costs simply follow sales.

2) Once the country MD has finished this suggestion he will simultaneously send this proposal both to the business board for an initial review and to the Country Sales Manager to give an indication of the expectations for the coming year. At this stage, before the business board has given any input, the Country Sales Manager will also share the suggested budget with the Branch Managers to give them an idea of the expectations for the forthcoming year. Before they are distributed however, the Country Sales Manager will divide the sales figures between the regional managers at his discretion. “HQ gives us free reins on how to reach the targets. They don’t tell us which products or geographical areas to focus on” (Country Sales Manager). The numbers as such are however fixed without any opportunity given to the Country Sales Manager to give his input on them. At this stage there is however a possibility for the Branch Managers to discuss with the finance department if they insist on the need for more resources (more Sales Engineers usually) to reach the revenue goals. These alterations to the cost side will be discussed with the Finance Department that, with the consent of the country MD, agree to or discard them. Since costs aren’t calculated item by item within the Swedish sales division, these discussions are quite rare and happen more in ad hoc circumstances, rather than on a regular basis. A Branch Manager comments the issue: “Since costs follows sales we don’t need to do any direct follow up on costs. Only big fixed investments are discussed directly with the headquarters” (Branch Manager).

3) After the business board has briefly reviewed the initial proposal the country MD and the business board meet to discuss the budget proposal during a meeting in which the global CEO & Co-founder/Owner also participates. According to an interviewed BB-member, this suggestion is quite similar to what in fact becomes the final budget. In contrast to the one-sided distribution of budgets proposal described earlier, this meeting is characterized as a discussion that starts with a presentation from the country manager of his proposal. “Even though we as the business board of course has the formal power, I think we have a good, open discussion without any hierarchical tendencies” (BB-member). The country MD also confirms this picture: “Of course they will want me to increase my sales figures, but we discuss back and forth, it’s a give and take”. An observation by both the country MD and the BB-members that we interviewed is that usually the discussion ends with the BB demanding an increase in sales compared to the proposed budget, but that this is tied to giving more resources (in practice Sales Engineers) to

the country MD. The goal is that a finished budget can be agreed on after a full day of discussions, and according to the BB-members interviewed this is also the case.

4) With the final budget prepared and approved, the Country Manager now distributes the budget to the Country Sales Managers. Unlike in step number 2), when the Country Sales Manager simply assigns different portions of the budget proposal to the different branches, this stage is characterized as somewhat more of a discussion. Although the total numbers are finalised without any possibility to change them, the allocation and the details regarding the budget has to be decided. “All the Branch Managers sit down together with the Country Sales Manager to discuss and then reach an agreement on how to split the total revenue budget between us” (Branch Manager). At this point more detailed items (not covered by the budget) are also decided on. “It’s pretty detailed. We go through and decide how many customer visits each sales person should have, how many sales quotes they should send and how many customer activities the branch should arrange” (Country Sales Manager). The country MD does not participate in this discussion, nor does he have any opinions on the conclusions they reach.

5) Only at this stage, once the budget is completely finalized and allocated to the different regions, are the Sales Engineers engaged (note that in Sweden the sales staff are labelled “Sales Engineers” while in Russia they have the title “Sales Managers”). They are informed about the budget for the branch for next year, which is then split evenly over the Sales Engineers in the branch independently of for example customer connections or last year’s performance. Although the Sales Engineers have not been involved in the actual setting of the sales budget, the interviewed Sales Engineers don’t mention being restricted because of the freedom the budget gives in terms of how they price products towards their customers or which customers they engage with. Views on how engaged the Sales Engineers actually are in the budget however varies; “If I wake up my sales staff in the middle of the night I expect them to be able to say what our budgeted revenues are for the year” (Branch Manager); “Honestly, I don’t know how I’m doing in relation to my budget – or actually what my budget is for that matter” (Sales Engineer).

4.2.2 Budget planning time line

As illustrated in Figure 3, the budget process in Sweden starts in February when the Country MD starts his initial planning. This phase lasts for about a month before the intensive month of March starts, which includes steps 1 through 4 described above. “Compared to other companies that I’ve worked at the process is much faster here which is important” (BB-member). According to several interviewees the time plan is kept well, to a large extent because of the

lack of discussion, but phase 3 and 4 have a tendency to run into April. “We usually attend a trade show in the beginning of April and usually there is some budget detail we end up discussing when we’re there” (BB-member). The last step of the process, step 5, is as a consequence usually started somewhat later than the first of April, but since this step is not very time consuming it is not a problem to finalize the whole process before the start of the next fiscal year (1st of May).

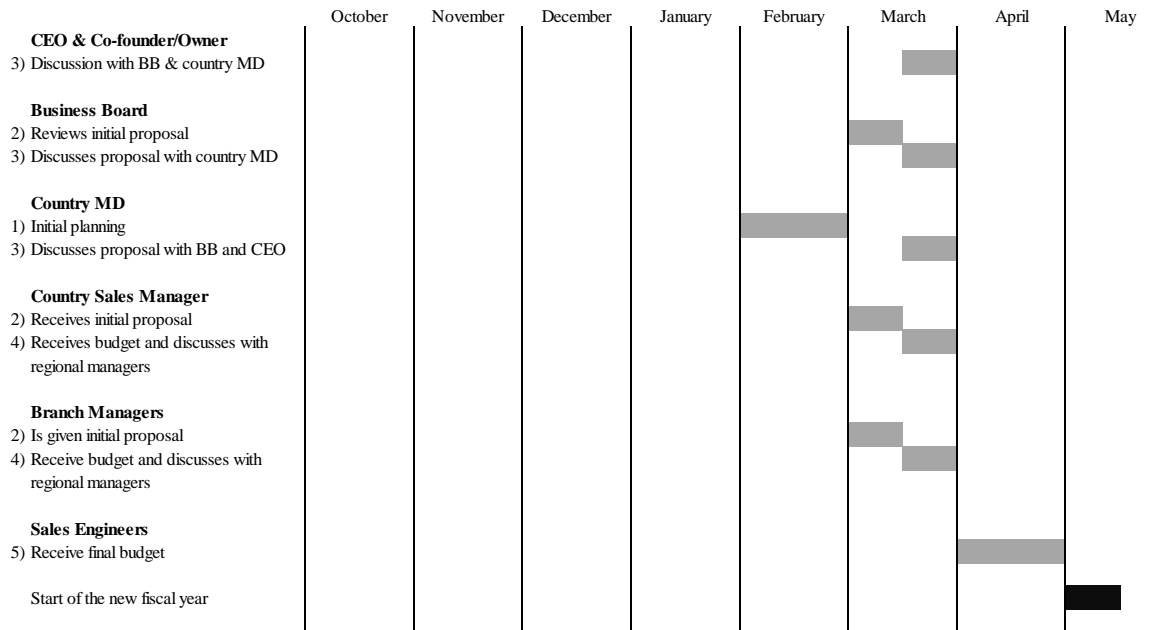


Figure 3. An overview of the budget planning timing in Sweden

4.2.3 Growth vision

Moving on to the growth vision, we observe that in Sweden the knowledge about the plan is very high but that the importance given to it is low. Strikingly there is consensus regarding this at all levels of the organisation. A remark made by several interviewees regards the perceived difficulty of the current plan. “It’s a tough goal – it requires us to take a lot of market share” (Country Sales Manager). “I don’t think it’s realistic. The only way to reach it is through more Sales Engineers” (Sales Engineer). “It’s not realistic. The company needs to employ more people (Sales Engineers). “It’s communicated, but I don’t nag about it. It gets tiresome” (Branch Manager). Most notable is however that not even the country MD gives the growth vision a lot of weight. “The current goal is too aggressively set, so I can’t really use it for the long term plans I make” (country MD).

4.3 Budget planning Russia

In broad terms the budget process in Russia can be described as a process in which mid-level managers are engaged to formulate goals and predictions, which are then used as the base for the budget formally decided upon higher up in the organisation. Although the business board and also the country MD have the formal power to disregard these, interviewees from different steps in the organisation indicate that these budget proposals form the basis for the final budget. Another key finding is that the budget planning process takes substantial time and also goes into great detail, with all items in the budget being thoroughly discussed. The CEO & Co-founder/Owner comments: “They put a lot more time and effort into this in Russia compared to in Sweden. Some parts could probably be solved in a more efficient way” (CEO & Co-founder/Owner). Moreover, the cost side of the budget has a prominent role in Russia. For a more detailed overview of this process we will however use Figure 4 and Figure 5 (simultaneously) to, in a chronological manner describe the interactions in the organisation regarding sales and costs, followed by a time schedule and some words on the growth vision.

4.3.1 Budget planning process

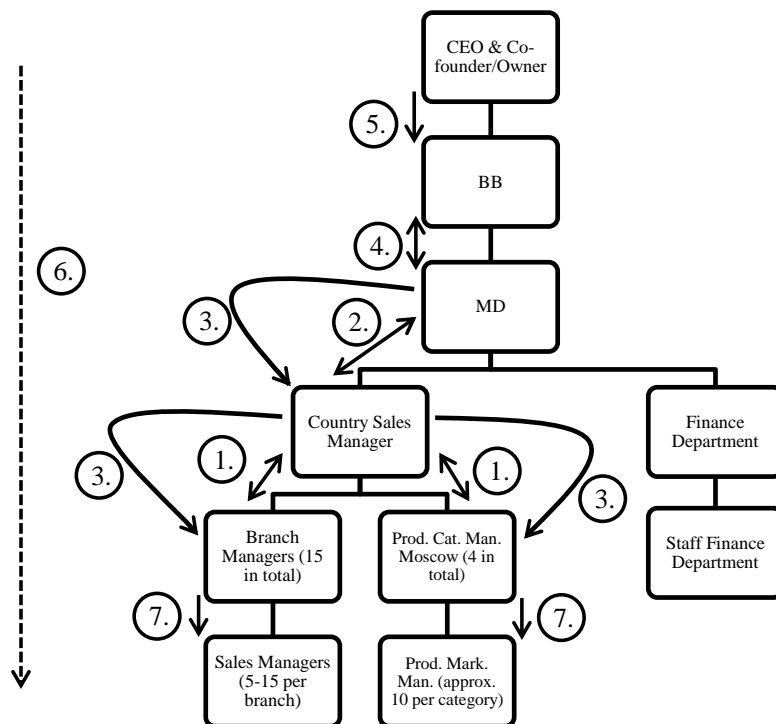


Figure 4. An illustration of the interactions between different levels in the Russian organisation regarding sales

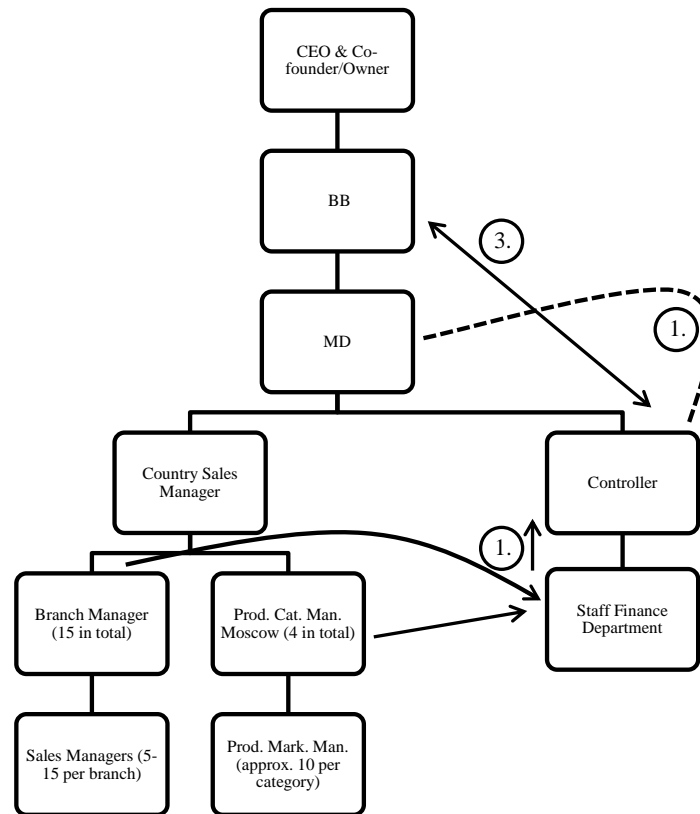


Figure 5. An illustration of the interactions between different levels in the Russian organisation regarding costs

1) In the first stage of the budget process, the Country Sales Manager and the Branch Managers (Product Category Managers for the Moscow region) together discuss an initial budget proposal that has been prepared by the Branch Manager. According to the Country Sales Manager these suggestions will usually be in line with his reasoning but that there is always a tendency for the Branch Managers to be “overly pessimistic”. He continues with saying that although he has the power to decide the outcome of the discussion it is very important that the Branch Manager will feel committed and view the budget as realistic. “Discipline is a great thing but there has to be a balance between power and reliability” (Country Sales Manager). According to both the Sales Manager and an interviewed Branch Manager, the discussion however most often boils down to a situation where they agree on a somewhat higher sales number than initially suggested but that this is accompanied with more resources (Sales Managers and assistants, in practice) than originally requested. Simultaneously the Branch Managers will have a discussion with the Controller and/or Finance Department regarding costs. “We discuss all issues related to costs: salaries, bonuses, travel costs, IT and so on” (Product Category Managers for the Moscow region). The Assisting Controller explains that costs of minor importance are generally

discussed with her or someone else in the Finance Department, but that more important costs always go through the Controller (who might then discuss this with the country MD). In the same way as in the discussion between the Branch Managers and the Country Sales Manager, these conversations are discursive in nature but with established distributions of formal power.

2) After the Country Sales Manager and the Branch Managers have agreed on their common suggestions, the Country Sales Manager meets with the country MD to discuss the proposal. Compared to the conversation described in step 1), this is also described as a discussion but one with clearer illustrations of formal power. “I almost always have a different opinion than the Country Sales Manager. So it’s just for him to go back and change it” (country MD). This is also confirmed by the interviewees at branch level. “When it comes back after the country MD and the Country Sales Manager have discussed it the sales numbers are usually about 2 or 3% higher than before” (Product Category Manager Moscow region). As for the discussion between the Country Sales Manager and the country MD the discussion will also focus on discussions of more strategical importance, most notably of whether it would be a good idea to open or close branch offices during the coming fiscal year. The MD will himself also have made a sales plan for the next year parallel to the one discussed here.

3) In this step, when the budget has been agreed between the Country Sales Manager and the country MD (with the blessing of the Controller for the cost side – that has also been run by the BB) it is distributed down in the organisation. There is practically no room for discussion regarding the sales, but perhaps some regarding the cost side. “I usually try to argue for another sales person or assistant and sometimes I get one” (Product Category Manager Moscow region).

4) With the finished budget proposal prepared internally, the country MD now sits down with the business board to discuss it detail. Apart from the country MD and the BB, the Controller (Russia) and another senior person (of partly Swedish origin) from the Russian organisation participates in this meeting. According to the Controller (Russia) she herself participates because of the high focus on cost while the other senior person participates because of “trust” reason. “She knows the market and the business and they (HQ) trust her. She represents the shareholders” (Controller Russia). Because the Controller participates in this meeting, there is a direct discussion between the business board and the Controller regarding costs. Interviewed participants of these meetings describe them as being of a discursive nature, and according to the country MD, the proposal suggested by him is generally “in line” with what becomes the finished proposal from this meeting. The BB does however go through the budget in great detail, and according to one interviewed BB-member there are always differences between the initial budget proposal and what becomes the final one. “I go through the sales figures for every

branch office individually and sometimes we also ask the sales country manager directly to come and explain some numbers” (BB-member). A member of the business boards of other foreign subsidiaries also explains that there is a common corporate standard for BB meetings with management in other countries. “We typically sit down and discuss the budget in detail for a whole day going through it in detail” (BB-member).

5) Once the BB and the country MD have agreed on a common budget proposal this is sent to the group CEO & Co-founder/Owner (who has not participated in this meeting) for a final review. “I’ve made it a principle to I look through all the budget proposals from our subsidiaries every year. Some of them I only glance at, but if it is a big subsidiary or a subsidiary that is having problems I look through it pretty carefully. Also if the subsidiary is newly founded or acquired I give it extra attention” (CEO & Co-founder/Owner). An interviewee who is a member of several BBs estimates that in 70-80% of the cases he will just say ok, but in the rest of them he will make some minor cost or revenue changes which he then informs the BB about, and which they then inform the country MD of (without any discussion).

6) Once the final budget has been decided, either as the one agreed to by the BB together with the country MD or as the one the CEO & Co-founder/Owner has modified, it is distributed down through the organisation to the Branch Manager level without being open to any additional changes. In practice this is done with the Country MD communicating the finished budget to the Country Sales Manager who then communicates it to his subordinates.

7) Now, only once the budget has been planned and discussed for up to six months are the individual Sales Managers informed about its content. The budget is at this stage also split individually between the Sales Managers by the respective Branch Managers. “Everyone gets a different sales plan depending on what projects and customers they have” (Branch Manager). According to both interviewed Sales Managers and Branch Managers this is done single handed by the Branch Managers without any further discussion. “She (the Product Category Manager Moscow Region) is very informed about what’s going on, of all the projects and so on” (Sales Manager).

4.3.2 Budget planning time line

As illustrated in Figure 6, the budget process in Russia starts already in October when the Branch/Product Category Managers start preparing their budget suggestions. After the start of the new year, this work is intensified and sometime in January/February discussions between the Branch/Product Category Managers and the Country Sales Managers and the Controller start (step 1). Parallel to this, starting in the end of November, the country MD will also start to map out his expectations for the coming fiscal year. “I have a vision that we should grow with 15% per year. To see if this is realistic I start planning early to have time if we for example want to open new branches in the next year. Last year I started in January but it was all too late” (country MD).

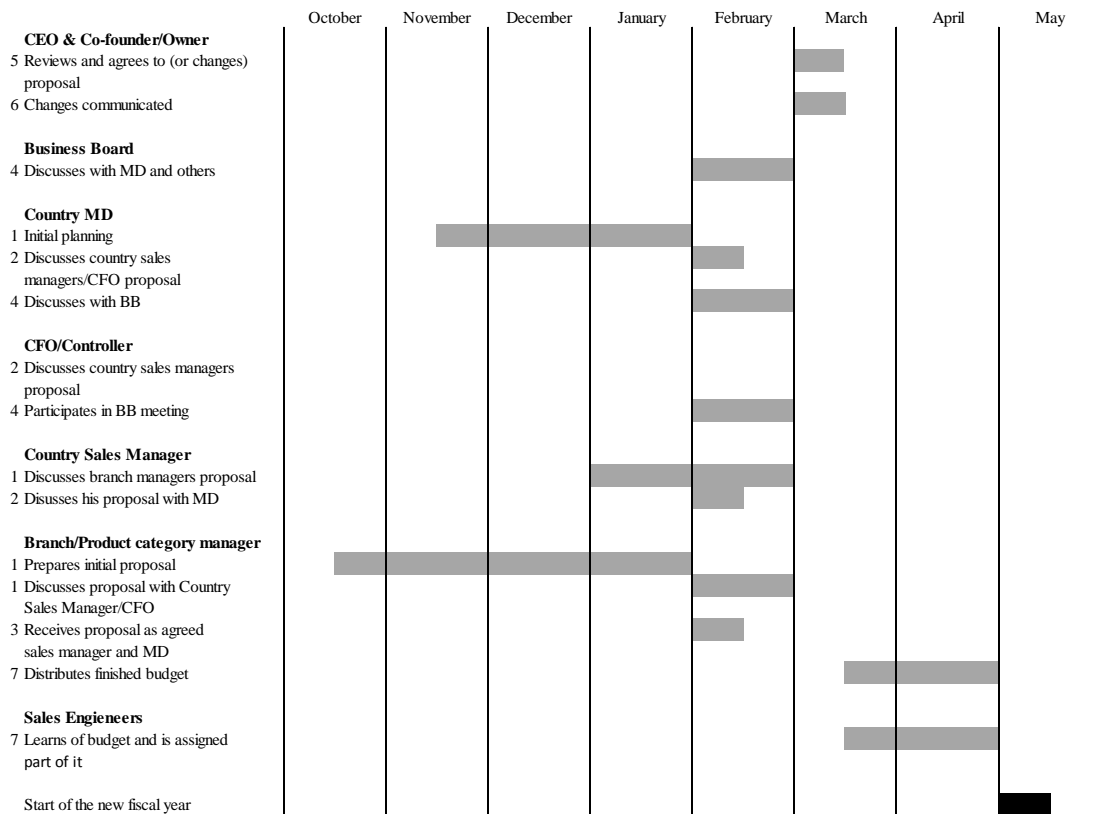


Figure 6. An overview of the budget planning time line in Russia

The next phase, discussions between the Controller/CFO, Country Sales Manager and the county MD (step 2) usually begins sometime in the beginning of February. Next (step 4), also in February the budget suggestions are discussed between the Russian management and the BB. The exact point in time of this meeting will vary, but as previously mentioned the goal is to

limit this step to 24 hours in total. Straight after this is finished, usually in the beginning of March the CEO & Co-founder/Owner will make his comments to the budget before it is ready to be distributed through the organisation. This final phase, step 7, will occur sometime in the end of March/beginning of April.

4.3.3 Growth vision

Within the Russian organisation the role of the growth vision can be summarized as: not well known and not very important. “For Russia the growth vision is not important. The reason for this is simple; we have to grow faster than what the growth vision says and long term planning doesn’t work here” (country MD). Also the Country Sales Manager and the interviewed Branch Manager (who creates the first budget draft) confirm that the growth vision doesn’t affect their work, even if they are aware of the growth vision as such. Other interviewees are not aware of, or at least not familiar with, the growth vision at all. Also from the point of the BB, the growth vision is of little importance for the planning of the Russian budget. “Russia is such a different market. It’s growing fast, we’re opening new offices, selling new products and so on and at the same time it’s very volatile” (BB-member).

4.4 Budget use Sweden

In short, the use of the budget during the budget period in Sweden as a whole can be described as limited. Further down in the organisation it is given low - not to say no - attention while higher up it is given somewhat more weight. The latter attention is partly to meet the demand of being coherent with certain corporate wide standards. Finally, the company uses a bonus system tied to sales, but because of the collective payment and the perceived low size of the potential bonus, it does not raise the interest in the budget. In the following section we present our findings in three parts. We start with an overview of the internal budget use, we continue with an overview of how the budget is used between the subsidiary and HQ, before finishing with a description of the bonus system.

4.4.1 Internal use of budget

During the on-going fiscal year, the sales budget is discussed and used internally in a relatively limited way within the Swedish organisation. The budget will be discussed between the Sales Engineers and the Branch Managers, between the Branch Managers and the Country Sales Manager, and between the Country Sales Manager and the country MD.

Starting with the communication between the Sales Engineers and the Branch Managers, this contact is limited to monthly meetings with the whole branch present, and individual meetings held annually. None of these monthly meetings focus solely on the budget so there is not much time spent on budget discussions. The budget is rather one of several topics discussed. According to the Country Sales Manager the monthly meetings last for about an hour and in terms of budget, number of customer visits and proposals sent are discussed together with sales figures. “During these meetings we go through what has been done and what should be done next month. Then we go through the regional budget and how we are doing on a group level” (Sales Engineer). The budget is generally seen as very tough. ”I see colleagues that are miserable and have totally given up reaching the budget” (Branch Manager). A Sales Engineer describes how his branch has reached the budget goals only twice in the eight years he has been in DuraGroup. The yearly meetings turn out to in fact not be yearly even though this is the internal ambition. “At one point I had to ask repeatedly for my yearly meeting. I finally got one, but that was the first one in three years” (Sales Engineers). Also other interviewees describe a situation of somewhat lacking follow up in terms the budget, but at the same time point out that this is partly due to current understaffing with the Country Sales Manager doubling as manager for one of the branches. “It’s true that the goals haven’t always been communicated throughout the organisation. Planning and execution done well, but the follow up is not given enough attention” (Country Sales Manager). In any case the attention given to budgets remains low within the branches, and outside of the meetings, questions regarding the budget are rarely discussed within the branch. “If I get a big order I might mention it during the coffee break but that’s about it. We don’t really discuss with each other if we are above or below budget” (Sales Engineer).

As to communication between the Country Sales Managers and the Branch Managers this is more formalised with meetings scheduled and held once a quarter. “Everyone meets in Stockholm, and we discuss big projects, competition, sales, number of customer visits, number of tenders sent etc.” (Country Sales Manager). According to the Country Sales Manager these meetings also have a bit more of a strategic focus, and that the ambition is to also get a bit of time outside the office to speak, by having dinner and then staying at a hotel for the night. It is also at this point in time when missed branch goals (both in terms of actual sales and customer visits tenders) are discussed. “I have individual conversations and we discuss this. Sometimes, if for example a customer goes bankrupt or cancels the project, the explanations are easy. If not we go through the amounts of visits that have been made, how many customer activities have been arranged and how many tenders have been sent” (Country Sales Manager). The Country Sales Manager says he has not yet been put in the situation where the missed goals have led to

any serious actions, but continues with saying that if customer visits are not carried out or tenders not sent for any apparent reasons, this could lead to relocation/demotion.

Moving on to the communication between the country MD and the Country Sales Manager, this is done primarily through monthly meetings where the budget is discussed together with other issues. During these meetings the Country Sales Manager will inform the country MD more specifically about the situation in the different regions and they then together discuss the reasons for, and possible measures to support, poorly performing regions. In this context the Country Sales Manager can to a large extent be seen as a link in the communication between the Branch Managers and the country MD.

4.4.2 **The use of the budget between the Swedish organisation and HQ**

As with the budget-planning phase, the subsequent budget use is limited to communication between the country MD and BB (with the technical support of the Finance Department). This is primarily done in the form of monthly information that the Finance Department collects and sends to the Group Controller who uses this information to create a two-page report produced by the 6th of every month for the previous month. In the case of any deviations the country MD will also comment/explain these in a short paragraph. According to an interviewed BB-member, the BB will however use not only the two-page report, but also the underlying information to monitor the subsidiary. The sales information can also be obtained for the BB-members almost in real time through the company ERP-system (“a great advantage” according to the BB-member).

4.4.3 **Bonus**

In Sweden Sales Managers generally receive only a fixed salary, but can get a yearly bonus if the branch budget is exceeded by a certain percentage per year. This bonus is maximum SEK 14 000 per year, tied only to revenue, and always paid on a collective basis. The CEO & Co-founder/Owner explains: “We find it works ok. People want to do a good job and aren’t driven by money. The Country Sales Manager comments it by saying: “The bonus is very small which I suppose is because of traditional reasons. Most sales people have a technical and not a sales background” (Country Sales Manager). Within the sales organisation the opinions on this are however somewhat different. “I’m more motivated by satisfied customers than by money, but I do think there should be more carrot and stick tied to the budget” (Sales Engineer). A colleague continues “It is good that the bonus is split up between the sales people but I think people would be more on the toes if they had a bigger variable compensation. This would only have a positive effect. At the same time maybe I’m from a different generation”. Also a former Sales Engineer,

now in a different position, has opinions on this. "The current system in DuraGroup air is not good. There has to be more incentives for the sales people than it currently is". He also points out that the incentives need to be for the whole sales group, not on an individual level, because this would create a behaviour of increasing internal competitiveness and stealing of customers from each other. Because of the many long-term customers he emphasises the importance of this, also pointing out "teamwork builds companies". Also important is not to get a too strong focus on sales – we have long-term customers. According to an interviewed Branch Manager a new bonus system would also demand a new budget system, stating that the current one is not communicated clearly enough through the organisation. An aspect also brought up during the interviews is that a new bonus system for the sales people might however create envy with the employees of the production units and that this has to be avoided somehow. For more senior managers the bonus system is similarly modest, but calculated on individual basis. "They get one month's extra salary if they reach the budget and another one (two in total) if they exceed it by a certain percentage" (CEO & Co-founder/Owner).

4.5 Budget use Russia

In short, we observe that in Russia the budget is used substantially during the year as a tool for controlling and following up on operations. This is perceived as time consuming. This is especially true further down in the organisation where superiors constantly check and discuss budget issues with their subordinates. Also between the Russian management and the BB is the budget used frequently, but perhaps more in line with stipulated corporate rules. The inclusion of the cost side in the budget also leads to high involvement from the Finance Department in the budget use. Finally, the fact that bonuses (paid on an individual basis) make up an important share of potential compensation especially for lower level staff creates high awareness and assigns great importance to the budget. In the following section we present our findings in three parts. We start with an overview of the internal budget use, we continue with an overview of how the budget is used between the subsidiary and HQ, before finishing with a description of the bonus system.

4.5.1 Internal use of budget

Starting with the communication between the Sales Managers and the branch/Product Category Managers, there is frequent and regular contact regarding the budget. "We have meetings with our chief (Branch Manager) at least once a month but if sales are bad we meet much more often" (Sales Manager). "We meet at least once a month one and one to look at the numbers, but it can be more often if needed" (Product Category Manager Moscow Region (Russia). The

Product Category Manager also emphasises that she checks the sales for every Sales Manager more or less daily. For Sales Managers working with so-called “project sales” (longer term projects) the situation is however slightly different. “We discuss with the chief not once a month but once a quarter because projects are generally longer. But she (the Product Category Manager) has full knowledge of the projects all the time” (Sales Manager). In both cases group meetings are however held more seldom and then focus is never solely on budget, but also on other issues. Several interviewees point out the benefits of continuous discussions with superiors regarding the budget, and also the importance of having realistic budgets – which the interviewees claim is the case. “It is important that the sales plan is realistic, otherwise we will lose motivation” (Sales Manager). “The budget has to be realistic for it to be useful. Otherwise people leave” (country MD).

Also between the next levels, the branch/Product Category Managers and the Country Sales Manager, the budget is used intensively in the day-to-day work. The Controller/CFO and the Finance Department is also heavily involved in following up of costs. “Every month I go through sales with the Country Sales Manager and costs with the Controller” (Product Category Manager Moscow Region). The Country Sales Manager explains that he has a monthly meeting with the branch/Product Category Managers dedicated to following up on the budget, but that budget is often discussed briefly at other points in time when he is in contact the Branch Managers. “I have contact with the Branch Managers every week, if not every day” (Country Sales Manager). Additionally, sales can be – and are – followed by the Country Sales Manager “live” through the internal accounting system. For the Finance Department this is also how costs are mainly controlled and followed up on. “I check every day that the costs are in line with budget or over or under” (Assisting Controller Russia). The fact that all economic transactions go via the head office in Russia also creates an automatic check. “Without approval from me there is no payment” (Assisting Controller Russia). On the cost side, the Controller also has direct contact with members of the BB regarding costs, but predominantly for costs of more “investment” nature not covered in the budget.

4.5.2 The use of the budget between the Russian organisation and HQ

Also in the contact between the country MD and the BB is the budget a frequent subject. “We meet at least once a month in Moscow but I am in contact with them every week. The budget as such we discuss once a month but main focus is on the deviations” (country MD). The country MD explains that if he sees that the budget isn’t going to be reached he starts cutting costs. He explains that certain costs fall automatically with lower sales and that this is reinforced by the fact that bonuses make up a large part of employee compensation (described in detail below).

Cost cutting actions will however go further than this and that layoffs are also a part of this (although Russian labour legislation makes this expensive). As for the practical aspects of communication between the Russian organisation and the HQ, the Finance Department assists in the preparation of the monthly report. Compared to in Sweden this work is however more cumbersome as the information has to be processed before HQ can take part of it. "I translate it into English from Russian and put it into excel before sending it to the head office" (Assisting Controller Russia). Comments regarding deviations are usually prepared by the Country Sales Manager for the sales side and by the Controller for the costs side, although the country MD might add or change something here. Because of the close connection between the BB and the Controller, the Controller is also closely involved in communication with the BB regarding the cost situation. This communication can be quite far-reaching. "In Russia things can be very unpredictable. Without forewarning, the government can for example suddenly important tax rules. This means there are almost always cost deviations compared to budget targets" (Controller).

4.5.3 Bonus

In Russia bonuses can reach up to 50% of the Sales Managers' total compensation and it is distributed individually according to a set of rules. The broad lines of this somewhat complicated system is that if sales exceed 75% of the budget a small bonus is paid, which is then raised incrementally to a maximum of 100% of the base salary (i.e. bonus part = 50% of total compensation) if the revenue budget is exceeded. The bonuses are paid on a monthly basis, but can also be received retroactively if sales are uneven and sales in later months of the year exceed the budget enough to "catch up" lost ground. Sales Managers within product sales receive their bonuses on a quarterly basis because of the long-term nature of their customer relationships. Also for more senior staff bonuses make up a large part of the potential total compensation, but they are in these cases not tied only to sales but to a number of measures. The Product Country Managers for example receive a maximum of 35% of their total compensation from bonuses, which is tied to a number of KPIs such as sales, gross margin and bad debt collection (KPIs are measured and bonuses paid semi-annually). Staff within logistics receives bonuses tied to "a complicated formula" based on variables such as on time delivery and obsolete goods. For the country MD the bonus system however matches the corporate standard to a closer degree, with one extra salary if targets are met and two extra salaries if the budget goals (in terms of revenue) are exceeded by a certain percentage. This is therefore (unlike anyone else in Russia) paid on an annual basis.

Unlike in Sweden, the interviewees are somewhat more sceptical to rate the current bonus system, but at least two things become clear; the system is deeply rooted within the organisation and interviewees from all stages of the organisation express support in some form for the system. An interviewed Sales Manager expresses it bluntly: “If we wouldn’t have any bonuses, just fixed salaries, nobody would sell” (Sales Manager). The HQ (BB) opinions regarding the system are more several folds. “What motivates people in Russia differs from what motivates people in Sweden, and that’s the way it is. At the same time it makes it harder to create the same team spirit in Russia as in other subsidiaries. People only do what they get a bonus for” (BB-member). The interviewed BB-member goes on explaining that bonus system also has historical reasons, “A large part of our employees come from a firm we acquired, so we kept the system that they were used to” (BB-member).

5. Analysis

In the forthcoming section we present our analysis of the empirical data relevant to our research question. As the underlying aim of this study is to investigate differences in the budget process across countries, and to what extent these differences can be explained by Hofstede's cultural dimension model (Hofstede, 1980), we chose to split this analysis into two parts. We start off by looking at observed differences in the budget process that can be explained by Hofstede's model before continuing with looking at observed differences in the budget process that cannot be explained using Hofstede's model. Our main conclusion is that the observed differences that are in line with Hofstede's predictions mainly relate to the Uncertainty avoidance dimension, while the observed differences that are not in line with Hofstede's predictions mainly relate to the Power distance dimension. For the latter observations we introduce a number of alternative explanations to the observed patterns. These alternative explanations focus on: the impact the geographical size of Russia compared to Sweden might have on the budget process, the impact of DuraGroup's bonus system in Russia and finally the impact of differences in the market and regulatory dynamics between Sweden and Russia.

5.1 National culture and the budget process – observations supported by theory

5.1.1 Budget setting starts earlier (and takes longer) in Russia than in Sweden

A major observation is that budget setting starts substantially earlier in Russia than in Sweden. Since the budget use phase of the process starts at the same time in both countries (1st of May) this also carries with it that the budget setting phase is longer in Russia than in Sweden. Most visibly, we observe that the MD in Russia starts his planning in November compared to in February for his counterpart in Sweden. Secondly, in Russia several other functions start their budget preparations as early as the MD (in some cases already in October) while in Sweden this work will always come after the MD has made his initial preparations. A result of the expanded time span, this means that also the steps in the budget setting process generally come earlier in Russia than in Sweden. For example in Sweden the budget proposal is not discussed in any way internally before March, but in Russia there are already in January numerous internal discussions regarding the budget.

Returning to theory, we recall that Hofstede, (2005) defines Uncertainty avoidance as the extent to which members of a society try to avoid uncertainty and ambiguity. Uncertainty about the future is a basic fact of human life (Hofstede, 1980), but the central issues here are attitudes

towards this uncertainty and how and to what extent people just let the future happen or try to control it (Hofstede, 2005). With Sweden and Russia being at the opposite ends of the spectrum on this dimension, the differences related to the Uncertainty avoidance dimension should therefore be large between these two countries – which they also are according to what we have observed. These findings are therefore in with what Hofstede's model predicts.

Looking at previous research within this topic we note two things: (i) the results are mixed, and (ii) a more nuanced look at the topic is needed. Ueno & Wu (1993) test the hypothesis that “Japanese companies will tend to develop long-range budgets to a greater extent than U.S. companies”, but don't find any significant differences, meaning that the hypothesis was not supported. Although the hypothesis as such relates to how far into the future there will be a plan, rather than the amount of time and effort spent to formulate this plan, this aspect also comes in here. In the discussion leading up to the hypothesis formulation, Ueno & Wu (1993) argue that “Managers in a high Uncertainty avoidance culture can be expected to spend much time and effort in formulating long-range budgets that cover broad time horizons”. It is thereby understood that Ueno & Wu (1993) reason that the longer the planning horizon, the more time and effort will automatically be spent on the budget – something we don't see as self-evident. Instead it is our opinion that two separate hypothesis would have had been more suitable: one focusing on the time spent on the budget process, and a separate one focusing on the time horizon of the budget. Additionally it has to be noted that Ueno & Wu (1993) do not make any specific distinction between time and effort spent during what we label as the budget setting phase and the budget use phase. Given the discussion above, this lack of distinction (i.e. between budget setting and budget use) however has no real practical matter because of the contradiction discussed prior to this. All in all we can therefore not say if our findings are in line with what Ueno & Wu (1993) observed.

Since Chang et al. (1995) get inspiration for their study from Ueno & Wu (1993) we face a similar situation here. They test the hypothesis that “Japanese companies used broad time horizons in the budgeting process to a greater extent than Taiwanese companies”, which they find support for. However, in the discussion leading up to this they use a very similar formulation as Ueno & Wu (1993), “managers in a high Uncertainty avoidance society would spend more time and effort in formulating long-range budgets”. Since the study by Chang et al. (1995) also uses the same method as Ueno & Wu (1993) to test the hypothesis (the framework developed by Daley et al. (1985)), we face almost exactly the same situation here. We can therefore not say if our findings are in line with what Chang et al. (1995) observed.

5.1.2 **Budget setting and budget use is more time consuming in Russia than in Sweden**

Another major finding is that not only does the budget process stretch over a longer period of time in Russia than in Sweden, but also uses much more time in total. Several interviewees point out that in Sweden the budget is discussed and used only to a limited extent during the year. Even during meetings covering budget, the budget is only a subject among several others. In Russia on the other hand both the budget setting and the budget use phase receive substantially more attention. In the budget setting phase this most clearly exemplified by the fact that in Russia more people are involved in the process, and the process has several additional steps back and forth compared to in Sweden. The biggest difference in terms of time consumption is however connected to what happens once we move into the budget use phase; here it is frequently used as a tool to control and follow up. This is especially true further down in the organisation where superiors constantly check and discuss budget issues with their subordinates. The inclusion of the cost side in the budget also provides more issues to discuss in Russia compared to in Sweden.

Firstly we can note that this is in line with what Hofstede's model predicts; the higher degree of Uncertainty avoidance in Russia compared to in Sweden results in more time being dedicated to setting and using the budget. Secondly, we run into the same problem with previous literature as discussed above. Although both Ueno & Wu (1993) and Chang et al. (1995) discuss the effort spent on the budget, we can't, given their hypothesis, draw any conclusions regarding this specifically. Therefore we cannot say if these findings are in line with what Ueno & Wu (1993) nor Chang et al. (1995) observed.

5.1.3 **Costs receive more attention in Russia than in Sweden**

In Russia much labour is put into forecasting and following costs in accurate ways, while in Sweden costs are simply assumed to be an automatic sum given whatever revenues have been predicted (fixed costs stay the same, variable costs simply follow sales). This is confirmed by several interviewees. "They put a lot more time and effort into this in Russia compared to in Sweden. Some parts could probably be solved in a more efficient way" (CEO & Co-founder/Owner). Especially in the budget use phase much time and effort are put into tasks on several levels that are not even considered in Sweden. "Every month I go through sales with the Country Sales Manager and costs with the Controller" (Product Category Manager Moscow Region). "I check every day that the costs are in line with budget or over or under" (Assisting Controller Russia). In Sweden on the other hand, since costs are not precisely predicted they are neither precisely followed up on. "Since costs follow sales we don't need to do any direct

follow up on costs. Only big fixed investments are discussed directly with the headquarters” (Branch Manager).

Although not directly commented on by previous literature, we argue that the inclusion of costs in the budget means that more attention is given to the budget process and that this is a sign of high Uncertainty avoidance. The observed differences are therefore in line with what Hofstede’s model predicts. Once again however the conclusion will be that previous studies can’t give us any guidance on this topic. It is only Ueno & Wu (1993) and Chang et al. (1995) that look at the budget process from an “intensiveness” perspective, and here face the same problems as previously discussed. We can therefore not say if these findings are in line with what Ueno & Wu (1993) nor Chang et al. (1995) observed.

5.1.4 Higher degree of budget slack in Russia compared to in Sweden

Lukka (1988) defines budget slack as deliberately created differences between the budgetees forecast about the future ("honest budget estimate"), and his or her submitted budget figure (budget proposal). From our research we clearly note that budget slack is used to different extents within different parts of DuraGroup; in Russia budget slack is frequently used in the budget to hedge against negative outcomes while in Sweden it is not. This is supported both by the claim that Branch Managers tend to be “overly pessimistic” made by the Russian Country Sales Manager, and by an interviewed BB-member who claims that the initial budget proposal he receives from the Russian sales division will always be overly pessimistic. In Sweden on the other hand, overly tough budgets are usually simply accepted without any further questioning. A Branch Manager in the Swedish sales division describes how budgets are overly tough to the extent that “I see colleagues that are miserable and have totally given up reaching the budget”, and a Sales Engineer describes how his branch has reached the budget goals only twice in the eight years he has been in DuraGroup. This is a stark contrast to the Russian Sales Managers quote “It is important that the sales plan is realistic, otherwise we will lose motivation” (Sales Manager).

While the reasons for using budget slack are clearly linked to some kind of an urge to hedge against negative or unexpected outcomes of the future, it is not entirely clear to which dimension in Hofstede’s framework this relates. Chang et al. (1995) explains the existence of budget slack as a result of high Masculinity and high Individualism, Ueno & Wu (1993) on the other hand argue that budget slack will be the result of high Individualism and high Uncertainty avoidance. Ueno & Wu (1993) also argue that by looking at the degree of budget slack in any given country, we could automatically determine which dimension “is dominant”. If we for

example observe budget slack in a country with low Individualism but high Uncertainty avoidance we would be able to argue that the Uncertainty avoidance dimension is dominant, and reversely if Individualism was high but Uncertainty avoidance low we could argue that the Individualism dimension was dominant. Regardless of our attitude towards this line of reasoning we can in any case state that from an Uncertainty avoidance point of view (together with Power distance the dimension we have chosen to look at) our observations are in line with what Hofstede's model would predict. That is, Russians have high Uncertainty avoidance and use budget slack to hedge against an unknown future, while Swedes have low Uncertainty avoidance and therefore don't have the urge to engage in this behaviour.

Looking back on our previous observations from this section (i.e. budget setting starts earlier, uses more time, and has a higher cost focus in Russia compared to in Sweden) we observe a pattern; namely that the expected observed differences all relate to the Uncertainty avoidance dimension of Hofstede's model. Essentially this means that, all other things equal, persons from high Uncertainty avoidance countries will try to control uncertainties related to the budget in numerous ways that persons from low Uncertainty avoidance countries will not (in line with Hofstede's predictions). We argue that two main practical implications follow from this: (i) companies have to be aware of the strong effect individual countries' degree of Uncertainty avoidance has on the budget process, and (ii) if companies want to make changes to the budget process on a global scale, they have to be aware that the ease of implementing these changes will depend on whether the changes go towards or away from the "preferred position" of that country determined by the degree of Uncertainty avoidance.

5.2 National culture and the budget process – observations not supported by theory

5.2.1 Budget setting: Top-down approach in Sweden, bottom-up approach in Russia

One of the most evident differences observed between Russia and Sweden is the fact that the budget setting process in Sweden is top-down while in Russia it is bottom-up. In both cases the observed methods almost completely match the common descriptions of the respective budget setting methods (see for example Ax et al., 2002). In Russia numerous persons far out in the organisation are involved in the budget setting, with their predictions and estimates given weigh as the proposal runs from subordinate to superior step by step through the organisation. Interviewees at several steps of the organisation confirm the possibility for lower level staff to affect the final budget. The initial budget proposal that serves as a basis going forward is for example prepared by the Branch Managers. The principle and spirit of the discussions can

perhaps be understood by the Country Sales Manager's comment that although he has the power to decide the outcome of the discussion, it is very important that the Branch Manager will feel committed and view the budget as realistic. In Sweden the situation is quite the reverse; the budget is essentially planned and decided high up in the organisation before being distributed throughout the sales department and there is little, if any, room for managers or employees further down in the organisation to influence the budget. As in Russia there is room for discussion between the country MD and the BB in Sweden, but unlike in Russia no significant changes to the budget come from further down in the organisation. As the Country Sales Manager explains the numbers as such are fixed without any opportunity given to the Country Sales Manager to give his input on them.

As we have previously mentioned, Hofstede (1980) describes Power distance as the extent to which less powerful members of a society are willing to accept, and expect, unequal distribution of power. In societies displaying a high degree of Power distance people accept a hierarchical order in which everybody has their place without further justification, while in societies with low Power distance people will demand justification of differences in power distribution and strive to equalize the differences (Hofstede, 2005). Although previous research makes no direct references to top-down and bottom-up budget setting methods, we argue that the degree of the term *participation* in fact describes to what degree employees at lower levels in the organisation are involved in the budget setting process. This is also coherent with the way Anthony & Govindarajan (2007) use the terminology, illustrated for example by the fact that they equate low participation with the top-down method.

Given this we note two things: (i) our findings are not in line with what Hofstede's model predicts, and (ii) our findings are not in line with previous research in this field. With Russia scoring 93 (very high) and Sweden 31 (very low) on Power distance we would clearly expect the opposite outcome; top-down budget setting (low participation) in Russia and bottom-up (high participation) budget setting in Sweden. The outcome is quite the opposite. Also referring to previous studies this result is not as expected. Although the countries chosen by Daley et al. (1995) to represent high and low Power distance countries in fact don't differ very much (Japan scores 54 on Power distance, the U.S. 40), they in any case show that U.S. managers and Controllers will tend to view participation in budgeting as less important, which is in line with theory. Moreover, O'Connor (1995) concludes that Singapore (a high Power distance country) uses low participation in the budget process (in line with theory), and Lau & Buckland (2000) show that in Norway (a low Power distance country) participation in the budget process is low (also in line with theory).

So why do we observe this pattern? The first possible explanation is quite a straight forward one; because Russia is much bigger in terms of size⁵ compared to Sweden, budget setting has to be more bottom-up simply for it to work. That is, despite going against the natural behavioural pattern of Russians, a bottom-up approach is chosen simply for pragmatic reasons. Specifically the argument would be that because Russia is so big in size, the help and knowledge of employees further out in the organisation is needed for a useful budget to be created. Using a bottom-up method should therefore here be seen not as a choice but simple as using the only method available. While the line of reasoning might be reasonable with regards to Russia, it does not explain why Sweden engages in top-down budget setting in contradiction to what theory (and previous research) predicts.

Therefore, it is more likely that this contradiction can be explained by an instrument used in completely different ways in the respective countries, namely the bonus system for low level employees. As previously discussed, in Sweden low bonus payments result in a lack of engagement in the budget setting (and use) by employees further out in the organisation – highlighted for example by the quote “I think people would be more on the toes if they had a bigger variable compensation” (Sales Engineer). Although the management claim that the bonus system works well, in combination with lacking follow up of the budget of any sort, it creates a situation where budget engagement is low and top-down budget setting becomes the simplest method. Managers prefer setting the budget without any discussions and the employees don’t mind this since the budget is quit irrelevant to them. That is, although Sweden is a low Power distance country, employees in this case don’t mind the exertion of power since it relates to a topic they have little interest in. In Russia however the situation is completely different. With up to 50% of for example the Sales Managers total compensation being bonus, the budgets that regulate them naturally become extremely important and the subject of much attention. With such an important and deeply rooted bonus system, engaging in the budget setting process becomes something that all employees want to and are motivated by. From a corporate perspective one could argue that it becomes something they hardly have a choice regarding; with the current bonus system they have to let all employees be involved in the budget setting in order to recruit and retain attractive employees. The Russian country MD’s quote “the budget has to be realistic for it to be useful. Otherwise people leave” highlights the importance of realistic budgets and employee involvement.

We have therefore shown that with a strong incentive system (in this case cash bonuses) companies can over win natural budget setting preferences of a country. More specifically, our

⁵ “Russia is 17,098,000 square kilometers in size compared to Sweden’s 450,000 square kilometers

observations point to that despite national preference for uneven distributions of power, companies can achieve high participation in the budget setting process through their use of incentives. Drawing on the observation from Sweden the opposite is also true; with lacking incentives, a natural preference for even distributions of power can be reversed, causing budget setting to become highly hierarchical. Companies should therefore be aware that incentive systems can have a strong altering effect of the natural attitudes towards the internal distribution of power in connection with the budget.

5.2.2 **Budget use more hierarchical in Sweden than in Russia**

Furthermore we observe that also the budget use phase is of a more hierarchical nature in Sweden than in Russia. This is clearly exemplified by the fact that in Sweden the role of employees further out in the organisation is practically non-existent when it comes to budget use; they have no communication with their superiors regarding the budget, and neither do they give the budget much thought themselves. Noteworthy, the further out in the organisation, the more one sided the communication gets, with the monthly meetings between the Branch Managers and Sales Engineers being of a solely informative, rather than communicative nature. The fact that one Sales Engineer had to ask repeatedly for his yearly meeting, and that it was the first one in three years, illustrates the limited weight given to their thoughts and insights. Instead, the purposes of budget use (as defined by Ax et. al 2002 in the previous research) are achieved through interaction between members higher up in the organisation. The employees furthest out in the organisation that supplies any kind of information is the Branch Managers, and it is really only when the country MD and the Country Sales Manager interact through their monthly meetings, that we observe discussions where it is a give and take between both parties. Moving on to Russia the situation is quite different. Even if the ability for the individual Sales Managers to affect the budget directly is limited, they are frequently involved when the budget is used as a tool to control and follow up on operations. As we previously noted this is especially true further out in the organisation where superiors constantly check and discuss budget issues with their subordinates. Quotes such as “We have meetings with our chief (Branch Manager) at least once a month but if sales are bad we meet much more often” (Sales Manager), demonstrates that these meetings actually matter and the value of the information provided by employees further out in the organisation. This pattern recurs; between every step in the organisation the budget is used extensively in the day-to-day work, and attention is given to lower level employees.

Based on previous research this is not easily explained. Contrary to what Hofstede’s model would predict Russia employs a bottom-up approach towards budget use while Sweden employs

a top-down approach. Although previously discussed research related to Power distance and budgets (Daley et al., 1995; O'Connor, 1995; Lau & Buckland, 2000) concentrate on the budget setting phase rather than the budget use phase, we believe it is reasonable to assume that their observed patterns of hierarchy (Power distance) in the budget setting phases of the studied companies probably to at least a certain extent continues into the budget use phase of the budgeting process.

The most plausible explanation to the observed phenomena is therefore probably once again connected to the differences in the bonus system used in Russia compared to the one used in Sweden. Despite Russia being a country with very high Power distance, the prevailing bonus system not only enables but also demands high involvement in the budget use also by employees far out in the organisation. Although the degree of involvement in the budget use does not affect the size of the bonus directly (this was essentially done in the budget setting phase), high involvement in the budget has become a natural element of the work of the employees all the way down to the Sales Managers. That is, despite not being in line with the Russian culture, the role of bonuses has brought with it high budget use among employees even far out in the organisation. Also the general implication of these observed differences is similar to that of the observed differences relating to budget setting; with a strong incentive system companies can over win natural budget use preferences of a country. Consequently, companies should therefore also be aware of the strong altering effect bonuses can have on attitudes towards the distribution of power in connection also with budget use (and not only budget setting).

5.2.3 Long term planning not used to the same extent in Russia as in Sweden

From a group perspective DuraGroup engages in long term planning through their “growth vision”. While this is not given as much attention in neither Sweden nor Russia as the headquarters ideally would like, it is given attention and communicated through the organisation to a certain extent in Sweden, but to no extent in Russia. In Sweden the country MD does use long term planning, but because of the perceived difficulty of the current growth vision its actual content is not used concretely in planning or emphasised down through the organisation. Comments such as “It’s communicated, but I don’t nag about it. It gets tiresome” (Branch Manager) and “I don’t think it’s realistic.” (Sales Engineer) highlights the lacking faith in the current growth vision. Importantly, it however also highlights the presence and high degree of communication/awareness of long term plans. This is not the case in Russia. The country MD does certainly know about the growth vision as it is communicated to him by the headquarters, but simply disregards it and doesn’t create an alternative plan. Given the lack of

knowledge about the “growth vision” as a concept by all other interviewees except the Controller, it is obviously not communicated or used further out in the organisation. The general opinion however also seems to be that there is no real need for long term planning in Russia, highlighted for example by an interviewed BB-member when he explains that “Russia such a different market. It’s growing fast, we’re opening new offices, selling new products and so on, and at the same time it’s very volatile” (BB-member).

This is not in line with Hofstede’s model and also contradictory to previous literature. Clearly a very high score on Uncertainty avoidance in Russia and a low score in Sweden would lead us to expect lots of long term planning in Russia and not very much long term planning in Sweden. Our results however (rather) point in quite the opposite direction. As previously mentioned Daley et al. (1985) do not specifically refer to Hofstede, but their research is in any case relevant in this context. They find that “U.S. managers and Controllers will be more favourably disposed to short term budgeting, as opposed to long term budgeting”. Given that Japan is a high Uncertainty avoidance country and the U.S. a low Uncertainty avoidance country this is in line with Hofstede’s model and not in line with our results. Although Chang et al. (1995) find support for the hypothesis that “Japanese companies used broad time horizons in the budgeting process to a greater extent than Taiwanese companies”, referring to our previous discussions, we however give limited weight to this. For Ueno & Wu (1993) the same reasoning applies.

In any case, our observed differences are quite striking and possible explanations are far from self-evident. A plausible explanation is however that despite the “urge” to plan long term, *market and regulatory dynamics* make it pointless to plan too far in the future. In other words Russians will plan the short term very thoroughly and intensively in line with Hofstede’s predictions (discussed above), but not the long term simple because it is not possible (although they would prefer to). This theory is supported for example by the following statement made by the Russian Controller: “In Russia things can be very unpredictable. Without forewarning, the government can for example suddenly important tax rules.” In Sweden on the other reliable macroeconomic and industry data is widely available, and the future is therefore easier to accurately predict.

This is interesting because it demonstrates the effect that the external environment will have on corporate planning horizons. Despite an inherent desire to control the future, we show that persons from high Uncertainty avoidance countries will give up the practise of creating long term economic forecasts if it is not possible to do this in a meaningful way. Returning to Osland & Bird (2000), who criticize Hofstede’s model on a number of counts, we note that this observation could potentially be explained by their concept of *value trumping*, namely that “*In a*

specific context, certain cultural values take precedence over others. Thus, culture is embedded in the context and cannot be understood fully without taking context into consideration". In any case, from a corporate perspective the implications of our observations should in this case be quite positive; employees will behave in a rational way when it comes to long term planning, even when it goes against their natural cultural instinct.

6. Conclusion

The aim of this study is to provide a greater understanding of how MNCs adapt their budget processes across countries, and to what extent can this be explained by differences in national culture. This has been investigated through a single case qualitative study of the Swedish and Russian sales divisions of the Swedish company DuraGroup. A total of 31 interviews were conducted, the great majority on site at two locations in Sweden, including headquarters, and one in Russia. As the study limits its focus to looking at differences between practices in the two countries, it is argued that these observations will depend only on differences in national cultures. The qualitative data was therefore analysed using Hofstede's *Cultural dimensions model* (Hofstede, 1980). Due to the substantial differences between Sweden and Russian on the Power distance and Uncertainty avoidance dimensions we chose to limit our collection and analysis of data to looking at these two dimensions. While a scarcity of similar studies within this field posed some difficulties for us in relation to collection and analysis of data, we believe that this also makes our study unique. No previous study has used a qualitative approach to study this issue, and no previous study has investigated countries with similar scores as the ones investigated in this thesis on neither Power distance nor Uncertainty avoidance.

Our main findings and their implications can be split into two parts; observed differences in the budget process that can be explained by Hofstede's model and observed differences in the budget process that cannot be explained using Hofstede's model. Starting with the former we make four important findings: (i) budget setting starts earlier (and takes longer) in Russia than in Sweden, (ii) budget setting and budget use is more time consuming in Russia than in Sweden, (iii) costs receive more attention in Russia than in Sweden, and (iv) there is a higher degree of budget slack in Russia compared to in Sweden. These observations all follow the same pattern: they relate to the Uncertainty avoidance dimension of Hofstede's model, meaning that, all other things equal, persons from high Uncertainty avoidance countries will try to control uncertainties related to the budget more extensively than what persons from low Uncertainty avoidance countries will. We argue that two main practical implications follow from this: (i) companies have to be aware of the strong effect individual countries' degree of Uncertainty avoidance has on the budget process, and (ii) if companies want to make changes to the budget process on a global scale, they have to be aware that the ease of implementing these changes will depend on whether the changes go towards or away from the "preferred position" of that country determined by the degree of Uncertainty avoidance.

In the second category, observed differences that cannot be explained using Hofstede's model, we make three important findings; (i) in Sweden a top-down budget setting approach is used while in Russia a bottom-up budget setting approach is used, (ii) in Sweden, budget use is more hierarchical than in Russia, and (iii) long term planning is not used to the same extent in Russia as in Sweden. As these findings are not in line with what Hofstede's model would predict, we continue by searching for alternative ways to explain them. We suggest that the first two differences could be influenced by the impact of the geographical size of Russia compared to Sweden, but primarily are explained by the differences in the bonus system used in the two countries. By using a strong incentive system the Russian organisation overcomes the natural national preference for uneven distributions of power, achieving high participation in the budget setting process. In Sweden the opposite is true; with lacking incentives, a natural preference for even distributions of power is reversed, causing budget setting to become highly hierarchical. We argue that the implication of this is that companies should be aware that incentive systems can have a strong altering effect on the natural attitudes towards the internal distribution of power in connection with the budget. Aiming to explain the last observed difference (that long term planning not used to the same extent in Russia as in Sweden) we suggest that market and regulatory dynamics may play a roll. Despite the "urge" to plan long term, the uncertain operating environment prevents Russians from doing so. This is interesting because it demonstrates the effect that the external environment will have on corporate planning horizons. From a wider corporate perspective it also provides an interesting example of employees behaving in a rational way, even when it goes against their natural cultural instinct. To sum up, the main conclusion of this study is that observed differences within the budget process that are in line with Hofstede's predictions mainly relate to the Uncertainty avoidance dimension, while the observed differences that are not in line with Hofstede's predictions mainly relate to the Power distance dimension.

6.1 Limitations and suggestions for future research

The extent to which general conclusions can be drawn from a small sample is a problem facing all qualitative research (Trost, 2010). This is also the case in this study. Furthermore, as data was collected through interviews the risk of incorrect personal interpretations affecting the outcome is also present, and reinforced by the fact that large cultural gaps between the interviewers and the interviewees were met in certain cases. Measures such as: conducting a relatively large number of interviews (31 in total, 24 conducted physically), cross-checking interview notes, and backing up interview statements with internal documents, have however hopefully mitigated these risks.

As the number of previous studies within our field is very limited, there are several streams of research that would be interesting to pursue. Firstly, there are numerous countries with distinct profiles in terms of scores on Hofstede's model that remain to be investigated, including major western European economies such as Germany or France, and emerging market economies such as India or Brazil. Secondly, additional insights could likely be gained from looking at budget processes within another type of company than DuraGroup and another type of organisation than a sales organisation. Finally, by adding a quantitative dimension to our study, for example by conducting a survey among several companies present in both Sweden and Russia, we would resolve the problem of generalizability discussed initially in this subsection.

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