



JÖNKÖPING INTERNATIONAL  
BUSINESS SCHOOL  
JÖNKÖPING UNIVERSITY

# **Tage Rejmes bil AB**

A case study of the company's budget process

Master's thesis within the civilekonom program

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Jönköping International Business School

May 2012

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## Abstract

<b>Title</b>	Tage Rejmes bil AB - A case study of the company's budget process
<b>Subject</b>	Business administration
<b>Authors</b>	Robin Berggren & Fredrik Eriksson
<b>Tutor</b>	Paul McGurr
<b>Date</b>	May 2012
<b>Keywords</b>	Budget process, budget purposes, Tage Rejmes bil AB

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<b>Background</b>	All companies need to plan their business and make projections about how they will do in the future; next week, next month, or maybe a year ahead. The most common management tool for planning a business is budgeting. A budget is an action plan for the whole company with goals and defined actions for each department. It shall contain expected consequences expressed in financial terms and be based upon expressed assumptions and conditions for a defined period.
<b>Purpose</b>	The purpose of this thesis is to get a deeper understanding about the current budget process at Tage Rejmes bil AB. The authors intend to map out and analyze the current budget process, in order to help the company to identify issues regarding the current budget process. This will be achieved by doing an in depth case study, involving the parent company and all of the Group's operating subsidiaries.
<b>Method</b>	The thesis is based on an inductive approach with a qualitative procedure which will help the authors to answer the research questions.
<b>Empirical findings</b>	The empirical findings are obtained mainly through interviews with the parent company and the subsidiaries within the Rejmes Group. The authors have mapped the current budget process and how it is implemented throughout the organization. All subsidiaries interviewed are within retailing, which is the Group's core business.
<b>Conclusion</b>	The result from the case study shows that the budget has the potential to be a good tool for managing the organization. There are however vital factors within the budget process, such as the excel sheet application and the management process of implementing the budget, which need to be evolved in order to maximize the budget. A dynamic budget tool which generates non-financial actions would ease the implementation and fulfillment of the budget's purposes, goals and objectives.

# Sammanfattning

<b>Titel</b>	Tage Rejmes bil AB – En fallstudie av företagets budgetprocess
<b>Ämne</b>	Redovisning
<b>Författare</b>	Robin Berggren & Fredrik Eriksson
<b>Handledare</b>	Paul McGurr
<b>Datum</b>	Maj 2012
<b>Nyckelord</b>	Budgetprocess, budgetsyften, Tage Rejmes bil AB

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<b>Bakgrund</b>	Alla företag behöver planera sin verksamhet och göra prognoser för verksamhetens framtid; en vecka, en månad eller kanske ett år framöver. Det vanligaste styrverktyget som används för att planera en verksamhet är budgetering. En budget är en handlingsplan för hela företaget med definierade mål och handlingar för varje avdelning. Den ska innehålla förväntade konsekvenser uttryckt i finansiella termer. Den ska vara baserad på uttryckta antaganden och förväntningar för en bestämd period.
<b>Syfte</b>	Syftet med denna uppsats är att få en djupare förståelse för den nuvarande budgetprocessen hos Tage Rejmes bil AB. Författarna avser att kartlägga och analysera den nuvarande budgetprocessen för att hjälpa företaget att identifiera eventuella problem. Detta ska uppnås genom en fördjupad fallstudie som inbegriper moderbolaget och samtliga dotterbolag inom kärnverksamheten.
<b>Metod</b>	Denna uppsats är baserad på ett induktivt tillvägagångssätt, vilket tillsammans med ett kvalitativt förfarande har besvarat frågeställningarna.
<b>Empiri</b>	De empiriska fynd som gjorts har till största delen inhämtats genom intervjuer med moder- och dotterföretag inom Rejmeskoncernen. Författarna har kartlagt den nuvarande budgetprocessen och hur den tillämpas inom organisationen. Alla dotterbolag är verksamma inom återförsäljning, vilket är koncernens kärnverksamhet.
<b>Slutsats</b>	Resultatet av fallstudien visar att budgeten har potential att vara ett bra verktyg för att styra organisationen. Det finns dock avgörande faktorer inom budgetprocessen, t.ex. Excel verktyget och management processen gällande tillämpandet av budgeten, som är i behov av utveckling för att kunna uppfylla budgetens innehåll. Ett dynamiskt budgetverktyg som genererar icke-finansiella aktiviteter skulle underlätta genomförandet och därmed uppfylla budgetens syften, mål och framtidsplaner till en högre grad.

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## I Introduction

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*The first chapter gives a short presentation of Tage Rejmes bil AB and introduces the reader to the research topic with a background to budgets. The first chapter also provides a problem discussion with regards to the current budget process at Tage Rejmes bil AB, followed by the research purpose, questions and objectives.*

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Tage Rejmes bil AB is one of Sweden's largest family owned businesses within car retailing and car services, accounting for 6 % of the total market share (M. Andrae, personal communication, 2012-03-09). The company was established in Ulricehamn in 1950 but moved its business to Norrköping in 1958, where the company's head quarter is still located. They are authorized dealers for cars, trucks and buses on behalf of brands such as Volvo, Renault, Ford and Dacia (Tage Rejmes bil AB, 2010). The company has approximately 700 employees spread over 15 different locations around Sweden. They operate within Östergötland, Närke, Västmanland, Södermanland and Småland. The company's turnover in 2010 was approximately 2, 5 billion SEK (Tage Rejmes bil AB, 2012).

The Group consists of six operating companies, two real estate companies and a parent company. Together these companies form the Rejmes Group, where Tage Rejmes bil AB is the parent company. The parent company has the primary task of managing the operating companies in which the group's day-to-day business is carried out. They are also responsible for the group's treasury and capital, information systems, and corporate administration (Tage Rejmes bil AB, 2010).

The authors have chosen to do a case study since they would like to tie their academic knowledge retrieved during their studies at Jönköping International Business School to a real life business situation. In the authors' pursuit of a suitable company for their case study, the authors came in contact with Tage Rejmes bil AB through personal contacts. The authors were asked by the company to map out and evaluate their current budget process which the authors found to be an interesting and suitable topic with regards to their academic studies.

## 1.1 Background

*"Few businesses plan to fail, but many of those that flop failed to plan."*

Bhimani, Horngren, Datar & Foster, 2008

All companies need to plan their business and make projections about how they will do in the future; next week, next month, or maybe a year ahead. The most common management tool for planning in a business is budgeting (Ax, Johansson & Kullvén, 2006). Johansson, Nilsson, Nilsson & Samuelson conducted a research in 1997 of Swedish publically traded companies to investigate the use of budgets. The result showed that 84 % of the investigated companies worked with budgets. According to Bhimani et al. (2008) a budget can be defined as "a quantitative expression of a plan of action and an aid to the coordination and implementation of the plan". Bergstrand and Olve (1996) defines budget in an alternative way, "A budget is an action plan for the whole company with goals and defined actions for each department. It shall contain expected consequences expressed in financial terms. It shall be based upon expressed assumptions and conditions for a defined period". The purpose of a budget is to get a forward-looking management perspective and thereby help the company to get into a better position to act on future opportunities and threats. A budget defines what actions and outcomes that are expected for the future period. The budget is a tool to achieve goals stated in the business plan. The budget is more precise than the business plan and defines e.g. the responsibility of certain actions (Bhimani et al., 2008).

In Sweden, budgets have been used within public governance for hundreds of years and were introduced within the private sector as a planning tool in 1960 (Charpentier, 1997). The years following the introduction of budgets within the private sector, a continuous development of the budget has taken place. Through the years 1960-1990 budget standards and norms were established to distribute responsibility on performance within organizations (Charpentier, 1997). The budget has during recent years continued its development and is today quite different from the original that was used in the 1960. According to Johansson (1997), responsibility distribution has become the key element in the budget process and the degree of financial details has decreased.

## 1.2 Problem discussion

Mattias Andræ, the chief financial officer of Tage Rejmes bil AB, is one of many participants in the company's budget process. He is considering the current budget process to be inefficient and time consuming. There are too many "man hours" spent on the budget process without receiving a satisfying result (a budget that is relevant no longer than 2-4 months). Mattias thinks that the current process is inflexible to rapid market changes that might severely influence the outcome of the year end result. The budget process does not allow the managers to work with "what if?" scenarios that would have been a very helpful tool (M. Andræ, personal communication, 2012-03-09).

The Group's budget system, a system that has served the company over 20 years, is based upon a large amount of excel documents that combined with one another makes the basis for the Group's yearly budget. Problems that may arise when handling with the excel application is that human errors occur when making a single budget as well as when putting all the excel sheets together (M. Andræ, personal communication, 2012-03-09).

Given these experienced problems in the budget process, Mattias Andræ has expressed his wish that this thesis will act as a basis for his work in evaluating the current budget process. If the result of this thesis proves the current budget process to have a weak ability to fulfill its purposes, alternatives to the budget process or modifications in the current budget process will be further investigated. Mattias vision is a budget that is more user friendly, easier to revise, gives the user the opportunity to "ponder over what if scenarios" and gives a better, overall, view of the current situation. Due to the fact that many of the department managers lack an educational background in business administration, Mattias wishes that the budget process would become more pedagogical for the users throughout the organization. If not, he thinks that the department managers currently involved in the budget process leaves the actual budget work to their controllers. By doing this, the budget system does not have to be as user friendly since everyone involved (controllers and top management) will have a deep economic knowledge, which opens up for an even more advanced budget system. Right now, 80 to 100 employees are involved in the budget process and are also seen as a weakness by Mattias. He would like us to look into the opportunity to reduce

the amount of both people involved and the amount of “man hours” put into the process. As he sees the situation right now, the amount of both people and “man hours” do not match the result received (M. Andr , personal communication, 2012-03-09).

The expectations of this thesis are, from Tage Rejmes bil AB, to give a description of the current budget process and analyze if it fulfills its purposes. If there would be deviations from the budget’s purposes, the authors of this thesis will try to give proposals of modifications to the current budget process. There are also expectations from the authors’ university, J nk ping International Business School, that the thesis should also fulfill an academic purpose.

### **1.3 Research questions and objectives**

The authors will evaluate the current budget process used within the company’s core business, involving the six operating subsidiaries and the parent company. The authors will also give feedback to the management of the parent company about how the budget process is perceived internally and what problems and limitations that is associated with the budget. Since this is an academic research study, the authors will evaluate the budget process at Tage Rejmes bil AB from a theoretical perspective. The research questions examined in this case study, to fulfill the academic requirements and to create value for the company, are stated below:

- *Does Tage Rejmes bil AB’s budget fulfill its purposes?*
- *Can a well structured budget process fulfill the budget purposes outlined by Lars Samuelson?*
- *How are the subsidiaries currently working and how would they prefer to work with budgeting?*
- *How is the current budget process structured?*

## **1.4 Purpose**

The purpose of this thesis is to get a deeper understanding about the current budget process at Tage Rejmes bil AB. The authors intend to map out and analyze the current budget process, in order to help the company to identify issues regarding the current budget process. This will be achieved by doing an in depth case study, involving the parent company and all of the Group's operating subsidiaries.

## **1.5 Delimitations**

Due to limitation regarding the time span of this thesis, the authors through consultancy with the tutor realized that they will not be able to fulfill all of Mattias wishes, described in the problem discussion. This will affect both the extent and depth of the thesis since a specific conclusion or answer to underlying problems will not be made. The authors will instead present the current problems and internal opinions regarding the budget process. The authors have not observed the budget process as such, but have been given in depth explanations about how the budget process works by the chief financial officer and interviewed personnel at Tage Rejmes bil AB's subsidiaries.

## 2 Theoretical framework

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*The theoretical framework provides explanations of theories, models and concepts which proves the thesis empirical investigation. This chapter will give the reader a deeper understanding about budgets and provides information about different sections within a budget process.*

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### 2.1 Budget

The budget comes from the French word bougette (portmanteau in English) and has its origin from the Latin word bulga which means leather bag (Nationalencyklopedin, 2012). The reason for the focus on a bag is because that in the 1900<sup>th</sup> century the British finance minister brought his future financial recording documents in a leather bag which was called budget. The word budget moved with time from the bag to its content (Grevé, 2011).

In Sweden, Lars Samuelson is one of the most renowned people within budgeting. Samuelson has written a lot of articles and literature about budgets. His studies are frequently used and referenced in articles and other studies. Samuelson is professor within business administration at Stockholm School of Economics and has studied budgets for many years. The theoretical framework of this thesis, which will act as a base for the authors' case study, will presuppose from Samuelson's defined purposes of a budget. The authors have found Samuelson to be a good reference when defining the purposes of a budget. This since the purposes stated by Samuelson has a lot of similarities with what is stated by other researchers within the same field. In total Samuelson has defined eleven purposes of a budget. These are; Planning, Coordination, Resource Allocation, Dimensioning, Responsibility distribution, Follow-up, Communication, Awareness, Targeting, Motivation and Incentive systems (Samuelson, 1991).

#### 2.1.1 Planning

The budget aims to plan a company's organization for future periods. The planning is a step in the process to fulfill the company's long term strategies and achieve its objectives. Budgeting is therefore used for planning activities, such as purchases, the need of person-

nel and investments. When planning for future actions through a budget the company can analyze what resources that are needed to achieve short term and long term objectives (Ax et al., 2006). Another important aspect of the budget is to create a base for pricing the products. The calculated costs in the master budget together with other information, i.e. sales volumes, will help the company to determine the price for certain products and/or services. A budget will, due to its economic content, help the company to determine future investments and answer certain questions, such as how much capital is required for the future period? How does the liquidity develop? (Grevé, 1996). By giving estimates of the economic development, the company can use the budget to present alternative developments. The company can choose to budget with an optimistic future outlook, which can prove higher return on capital or a shorter pay-off time on investments. The company can also choose to budget with a pessimistic future outlook, were risks are carefully calculated which might lead to lower return on capital (Lagerstedt & Tjerneld, 1991). The budget is an important tool to specify certain short term actions to fulfill the long term goals of the company (Mintzberg, 1979)

### **2.1.2 Coordination**

The budget is an important tool in the management's work to coordinate and distribute the company's goals and objectives throughout the whole organization (Abernethy & Brownell, 1999). Good coordination of the resources within a business is essential for achieving an effective organization. The budget requires a coordination of the relationship between different departments, individual operations and the company in general (Bhimani et al., 2008). An example of this is when the sales department is planning its budget for sales. Then it is good to coordinate resources with the production department in order to form budgets with similar volumes. In this way it is easier to work towards the same goal (Ax et al., 2006). Coordination is not only about coordination of production units, but also coordination in questions about: what should be prioritized and how should the resources be allocated? (Lagerstedt & Tjerneld, 1991). The budget can be used to allocate scarce resources to departments that are in most need of economic or other resources. By allocating scarce resources efficient, it will be easier for the whole company to attain the company's long term goals (Andersson, 1995).

### **2.1.3 Resource allocation**

Resource allocation is distribution of resources between different stakeholders (Nationalencyklopedin, 2012). An organization usually has an overriding goal that resources should be allocated in a way that the highest grade of effectiveness is achieved. By having an effective allocation of resources, the company can maximize return of resources (Samuelson, 1991). The company is often in the position to balance resource allocation in both short term investments and long term investments. That implies that the company must have a strategic plan of how resources should be allocated in short term with respect to long term investments. If the company can achieve an efficient allocation of resources, the company will most probably have a satisfying return on its resources (Grevé, 2011). Resource allocation is not only about distributing available resources within the company but also make it possible for different departments to grow and to maximize the return of resources in an efficient way (Ax et al., 2006).

### **2.1.4 Dimensioning**

Dimensioning means determining the capacity of specific units with regard to norms and demands (Nationalencyklopedin, 2012). This means that a guidance of accumulated volumes for e.g. the purchase department can be allocated through the budget process. It gives the purchase department the opportunity to oversee and dimension its own department; is there need for more personnel? Is the current system for purchases good? (Kullvén, 2009). The budget should help the company to dimension all departments and determine a common level of capacity for the aggregated output of the company. Through dimensioning all departments within the company can minimize occurrence of overcapacity (Ax et al., 2006).

### **2.1.5 Responsibility distribution**

To implement and achieve the company's short term and long term goal, responsibility is distributed to managers in the different departments (Kullvén, 2009). The budget should give guidance to the managers regarding what they should accomplish in order to contribute to the company's goals and objectives (Grevé, 2011). While the managers are responsible to attain certain goals, the company is responsible for distributing resources according

to the budget (Ax et al., 2006). By distributing responsibility within the organization, decision making will become more rational since the decisions processes will be shorten and the decisions will be made by department managers who have deeper knowledge about the department than the company's top management (Lagerstedt & Tjerneld, 1991).

In order to create motivation and awareness and achieve the budgeted goals and objectives, it is important that the company involves all of its employees in the budget process (Ax et al., 2006). The role and contribution of every employee will differ depending on their position at the company. Some employees will just have a brief influence on the budget as a provider of information or proposes, while others will work with the budget throughout the whole process. According to Ax et al. (2006), there are three main contributors to the budget process. These are management, controllers and managers at department level. Management has its greatest influence in the beginning and in the end of the budget process. In the beginning of the process the management will specify the conditions and goals that will apply for the budget. In the end it is management who will approve the final budget. In middle and large companies, there is usually a group of people driving the budget process. These people are referred to as the controllers. Their tasks are to make sure that the sub-budgets follows the given instructions and that they compile to the final master budget. They are also responsible for setting general rules, guidelines, provide budget models, as well as assist in the overall budget process (Kullvén, 2009). The managers at department level are responsible for the department budgets and are the ones who have knowledge about their specific department (Ax et al., 2006). If it has been made clear who is responsible for a specific department that person is also responsible for explaining deviations from the budget. If there is a clear definition of who is responsible, it will also motivate the person to achieve a positive outcome with regard to the budget (Bergstrand, 1993).

### **2.1.6 Follow-up**

Follow-up is a self check procedure which gives the budget feedback on what was planned in comparison to the actual outcome. Using follow-up procedures more frequent, the company can adjust the budget and get signals regarding deviations from what was originally planned (Kullvén, 2009). The follow-up will, through the comparison procedure, make

responsible personnel aware of both positive and negative deviations, which can become an advantage for future budgets. The follow-up will alert responsible personnel about factors that have changed characteristics. They will thereby become aware of problems and enables them to eliminate the problem. The company can thereby make the organization more efficient (Kullvén, 2009). Another purpose with follow-up is to provide a basis for better budgets in the future (Ax et al., 2006)

### **2.1.7 Communication**

Communication is essential from the management to distribute the company's short term and long term goals within the organization. A two-way communication system will make management aware of ideas and problems recognized within the different departments (Grevé, 2011). Two-way communication implies that information should flow in both directions during a conversation between two or more individuals (Kahn & Cannell, 1957). This type of communication is essential for solving internal problems and coordinate the business as one unit (Ax et al., 2006). The communication between top management and department management in the budget process is necessary in order to exchange information. In cases of negotiations, the outcome of the negotiations can become an agreement were the budget is a commitment of both parts (Andersson, 1995). Communication on regular basis is made regarding deviations from the budget, why these are taking place and what actions that will be taken to correct these (Abernethy & Brownell, 1999).

### **2.1.8 Awareness**

A budget should result in awareness of what the goals and objectives are with the business (Grevé, 2011). The budget projects a picture of the whole company to each employee, who usually is concerned with only his or her daily work (Ax et al., 2006). By letting employees be aware of the company's overriding goals and objectives through the budget, the employee will get a better understanding of the different departments work. In this way the employee will understand how his or her work will benefit the other employees and the company as whole. When employees become aware of their contribution, they will become more motivated (Kullvén, 2009).

### **2.1.9 Targeting**

A step towards creating awareness and realize goals and objectives is to set up targets. By setting up targets for the employees, departments and management they become aware of what is expected from them. When targets are set, decentralization can be created within the company and decision-making processes are taken care of within each department. The result is a more flexible organization where decisions can be made at lower levels. The targets direct decisions in a certain direction (Ax et al., 2006). Targets can be expressed in larger or smaller scale. An example of setting up targets in a larger scale could be revenues for a department, while a target in smaller scale could be non-financial targets such as cars sold per sales men and day (Kullvén, 2009).

### **2.1.10 Motivation**

Good motivation of employees can contribute to the work of fulfilling the goals and objectives of the company. By letting employees be a part of the budget process it is assumed that they will try harder to fulfill the goals in the budget. Usually it is appreciated by the employees to have well defined goals and objectives since this will make them aware of what is expected from them (Ax et al., 2006). Through continues discussions about the work during the year, the budget will become an important part of the employees daily work (Kullvén, 2009). The budget can be used as a motivation tool. It should trigger and motivate employees to work towards the goals in the budget. To achieve a budget that works as a motivation tool, the process leading to the final budget is important (Bergstrand, 1993). Problems can arise if the whole budget is decided by top management and can become a threat rather than a tool for the employees in their work (Drury, 1996). To achieve good motivation from employees, it is necessary to make clear what is expected from him or her in order to achieve the goals and objectives in the budget (Hay & Williamson, 1997). Good motivation can also be achieved or strengthen by the employees if there is an incentive system that rewards the employees when the budget goals are achieved (Bergstrand, 1993).

### **2.1.1.1 Incentive system**

The motivation of employees can be enhanced by different incentive systems. To measure the performance of employees during a given period the company can see whether the employees are contributing to the company's goals (Ax et al., 2006). The goals and objectives stated in the budget are compared to the actual outcome and if the goals has been fulfilled or outperformed, a reward is usually obtained (Kullvén, 2009). The rewards can be increased or extra salary, benefits, or career opportunities (Samuelson, 2004).

## **2.2 Budget content**

The content of a company's budget is dependent on the size of the company and can be extensive depending on how deep the planning is rooted within the company. Usually the budget process leads to a master budget, a budget for the whole organization. Another common feature is that the master budget is based on sub-budget, which through aggregation results in a master budget (Samuelson, 1997).

### **2.2.1 Master budget**

The purpose of the master budget is to coordinate all the financial projections made in individual departments of the organization and summarize them into a collective organization-wide budget (Bhimani et al., 2008). The master budget accounts for impacts made by operating decisions as well as financial decisions. Bhimani et al. (2008) defines operating decisions as a company's short-term planning of the purchase and use of scarce resources. Financial decisions refer to how the company will attain the resources needed to be able to acquire these scarce resources. The three main components included in the master budget are the budgeted income statement, the budgeted statement of cash-flows and the budgeted balance sheet. These three main budgets are based upon different sub-budgets, such as sales budget or research budget (Kullvén, 2009).

**2.2.1.1 Budgeted income statement**

The budgeted income statement is an estimate of what costs and revenues a company expect to occur during a given period. This is made in order to achieve and simulate future outcomes and help the company to take suitable actions to possible future threats or opportunities (Kullvén, 2009).

**2.2.1.2 Budgeted cash flow statement**

The budgeted statement of cash flow aims to plan a company's future payments and cash disbursements in order to determine the liquidity during the given period (Ax et al., 2006). As the name entails the statement of cash flow shows how money is distributed during a given period. What amount of cash is expected to leave the company and what amount predicted to be received (Kullvén, 2009).

**2.2.1.3 Budgeted balance sheet**

In the budgeted balance sheet the company states the expected equity, assets and liabilities at a given time (Ax et al., 2006). The budgeted balance sheet needs to be based upon the balance sheet data from an earlier period, i.e. previous month or year. The company also needs the information from the budgeted income statement and the budgeted statement of cash-flows for the period the balance sheet concerns (Ax et al., 2006).

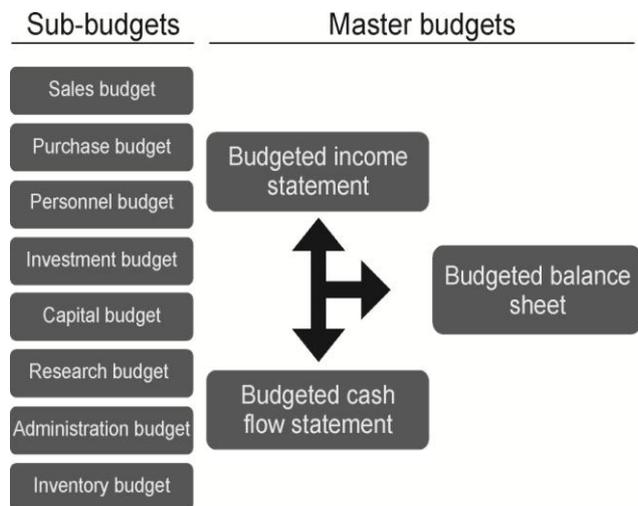


Figure 1: Budget setup. Developed for this thesis, based on Kullvén (2009).

**2.2.2 Sub-budgets**

A company's budget, which was described earlier, consists of three master budgets. The budgeted income statement, the budgeted cash flow statement, and the budgeted balance sheet. These master budgets are based on sub-budgets that all together form the founda-

tion for the entire company's planning (Kullvén, 2009). Sub-budgets can also be made outside, independent of, the master budgets for different projects. Sub-budgets made up by sub-budgets, i.e. the personnel budget is based on sub-budgets regarding salaries and travel expenses (Ax et al., 2006). One can say that there are two types of sub-budgets, department budget and function budget (Grevé, 2011). Department budgets, also called organizational budgets, are the most common sub-budgets in a company. These budgets are constructed for different units within the company; departments, working groups, etc. (Kullvén, 2009). Since businesses often have different functions which are divided into departments based on their function (sales, purchase, production, etc), function budgets can be seen as a type of department budget. In cases when a business is divided in departments based on different products, a function budget will help to coordinate the aggregate demand and need for certain functions and resources (Kullvén, 2009).

### **2.3 Basis for the budget**

Setting up a budget can be made with help of two different perspectives, the current business or the market situation. These two perspectives give an appropriate base for setting up the budget (Kullvén, 2009). The most usual perspective to use when setting up the budget is the current business perspective since it requires less time and resources. Using this perspective the company recalculates previous year's costs, planned investments, etc. with help of given contracts and forecasts. The sales volume may have to be adjusted with regard to the current market and the customers' demand. Problems that arise when using this perspective is that inefficiencies within the company are stored since processes never are set in relation to substitutional processes. The effect of this may be that the business is slipping away from the customers and with time losing its efficiency (Ax et al., 2006). The alternative perspective to use for planning is the market perspective. This perspective starts with making estimates about the market situation and the demand for the company's products or services. That means that this perspective, apart from the current business perspective, starts with estimating the revenues and then adjusts its costs, planned investments, etc. with help of the estimated revenues (Ax et al., 2006). In reality one can say that none of these perspectives are used in its pure form, but often as a mix of the each other (Ax et al., 2006).

## 2.4 The budget process

This section will describe the budget process, how it is planned and how it is implemented in the organization. According to Kullvén (2009), the budget process has 4 phases which all interacts with each other. These phases are Budget setup, Budget follow-up, Budget analysis and Budget usage.

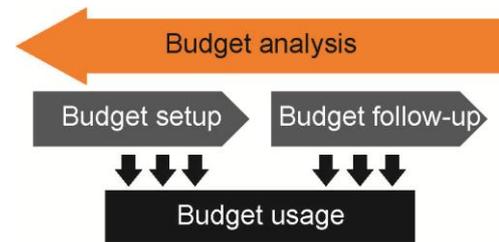


Figure 2: Budget process. Developed for this thesis, based on Kullvén (2009).

### 2.4.1 Budget setup

The process starts with setting up principles and methods for how the budget should be structured. The budget can be built up in three different ways, through the top down approach, the bottom up approach, or the iterative method. Before constructing a new budget the company collects knowledge and experience from earlier budgets, through the budget analysis, to learn how the new budget should be structured. It is also a process of collecting data about the company's environmental change, i.e. inflation, interest rate, change in regulations, future market position, demand of products, signals from suppliers and customers, etc. From this information, earlier experience and estimations of sales, production volumes can be determined. This means that the budget estimates revenues and costs for its future operating period (Kullvén, 2009).

The top down approach implies that a qualified goal is set for the whole company and then decomposed down into different departments. In this way each department will have requirements and goals well defined. Each department will evaluate the given goals and requirements and reply with counter proposals, in cases where there is need for modifications (Samuelson, 1997). Working with the top down approach, each department does not have to spend time to figure out volumes since this already is defined from the top management. In order to make the top down method operational and effective, the top management has to have deep knowledge about the business and work actively towards their defined budget goals (Grevé, 2011). The top down approach is advocated when profitability is less satisfying (Samuelson, 1997).

The bottom up approach is unlike the top down approach built up from each department and aggregated into the company's qualified goal for the upcoming period. The top management role in this method is to set up general conditions for the budget process and define due dates for when the budgets should be set (Grevé, 2011). The purpose with this method is to give the departments the opportunity to develop ideas about how they should work without being restricted through different conditions set by the top management (Samuelson, 1997). When the departments have planned their business, budget proposals are presented for the top management who will go through each department's proposals. Top management may have some objections and these are presented for each department whose mission is to come up with a new proposal with regard to the new conditions. When both top management and the department managers are satisfied, the budget is set (Kullvén, 2009). Using the bottom up approach, discussions about the organization is raised and more motivation is generated within each department to work towards self-defined goals. Creativity and engagement are characteristics generated with this method and the outcome will thereby, most probably, be a thoughtful budget work (Kullvén, 2009). The bottom up approach is advocated in resourceful companies where all ideas can be realized (Samuelson, 1997).

In reality, a hybrid of the both described approaches is used (Samuelson, 1997). The hybrid method of these two approaches is called the iterative (repeating) method (Samuelson, 2004). What characterizes the iterative method is that discussions about changes in both goals and budgets are taking place in different cycles and are communicated at different organizational levels. The iterative method usually starts with a forecast, made by top management, of expected demand of products and/or services produced in the company. Through these forecasts, the company can adjust and dimension its organization. Since this method is a mix of the top down approach and the bottom up approach, it also has their respective pros and cons (Ax et al., 2006).

### **2.4.2 Budget follow-up**

When the budget setup is finished and the plan has become an action, the company should follow-up and compare what was budgeted with the actual outcome (Kullvén, 2009). The follow-up procedure aims to analyze the deviations which then may result in changes of the plan or the budget (Samuelson, 1997). This procedure also acts as a base for the achievement rating and different types of rewards (Samuelson, 2004). The work with follow-up can be made at any time, but the most common use are continues follow-ups made on a weekly and monthly basis. These follow-up reports should be conducted by responsible personnel in each department or on controller level (Kullvén, 2009). Working with deviations, the company should concentrate on the most relevant deviations (Samuelson, 2004). From these deviations the report should contribute possible actions or solutions to act upon (Kullvén, 2009).

### **2.4.3 Budget analysis and usage**

Budget analysis aims to evaluate the current budget process. It is about evaluating the budget process in order to improve and construct a better process for the upcoming period. Questions that are raised in this evaluation are e.g. what was good and what was bad? How can what we have learned contribute to the business? (Grevé, 2011). In the last part of the budget process, collected knowledge and information are taken care of and distributed within the organization for different purposes. The collected information can be used in several ways e.g. involved personnel can get feedback on his or her work. This type of information can create a positive pressure on the personnel to work harder towards the company's goal and create a base for awareness. It can also make the employee to work towards the right goals. Another way to use the budget information is to use it as a basis for decisions. When having information about deviations the company can act on this information and make decisions about certain measures, i.e. the information shows that more material than planned are used in production, then the company can figure out the source behind the problem and find a solution to how the increase in material use can be prevented (Kullvén, 2009).

## **3 Method**

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*In this chapter the authors will describe the choice of method in order to fulfill the purpose of the thesis. In addition they will describe the research approach, method for gathering empirical data, research strategy and quality assessment.*

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### **3.1 Case study within a company**

Investigative work is a useful tool in every company to ease the decision-making process. These investigations are made to develop and specify decision alternatives and to assess different operations impact. Within a company's different departments specific investigations are taking place. Such as marketing investigation, purchase investigation, production investigation (Lundahl & Skärvad, 1999). The authors of this thesis are going to do a budget specific investigation regarding the routine procedure of the general budget process at Tage Rejmes bil AB.

### **3.2 Research design**

Research design is an important part in writing a thesis. The main reason why research design is so important is because it helps us turn the research question and objectives in to a research project (Saunders, Lewis & Thornhill, 2009). By determining our purpose with the thesis and by choosing the right research design the authors will decrease the chance of drawing incorrect conclusions from their collected data (De Vaus, 2001)

#### **3.2.1 Research approach**

There are two different kinds of research approaches when working with theories. These are inductive and deductive reasoning. Inductive reasoning is when a theory derives from collected data. This form of reasoning makes an individual case generalized. Deductive reasoning on the other hand is when a theory and a hypothesis are developed. The hypothesis is tested with help of the research strategy and the hypothesis is valid if its premises are true (Saunders et al., 2009). The authors will use deductive approach in the evaluation process of Tage Rejmes bil AB and their budget process. By reviewing literature and academic arti-

cles the authors will identify relevant theories and models applicable to the case study. By doing this, the authors will obtain relevant knowledge and an understanding of the given subject and thereby have a greater chance of achieving a satisfying results.

### **3.2.2 Type of research**

According to Saunders et al. (2009) there are three different types of research, depending on the purpose of the thesis. These are Exploratory research, Descriptive research and Explanatory research.

An exploratory research aims to seek new insights, and answer questions such as “what is happening?”. This is achieved by asking questions and to assess a phenomenon in a new light (Robson, 2002).

Exploratory research is helpful in cases when a problem needs to be clarified. Questions about a specific phenomena can be answered in terms of Why?, How? and When? This kind of research can be performed in three different ways;

1. a search of the literature,
2. interviewing experts in the subject,
3. or conducting focus group interview.

(Saunders et al., 2009)

Adams and Schvaneveldt (1991) claims that there is a link between exploratory research and activities of a traveler or explorer. Another similarity between the exploratory research and the activities of a traveler or explorer is that the project direction might change as an effect of obtaining new information.

The goal with descriptive research is to describe and portrait correct characteristics of persons, events or situations (Robson, 2002). This type of study is often a part of the explanatory research approach and can in those cases be seen as a forerunner or a part of explanatory studies (Saunders et al., 2009). Explanatory studies goes beyond both exploratory and descriptive studies and tries to explain why a phenomena occurs, explain the relationship

between variables (Saunders et al., 2009). An example of such finding might be correlation between alcohol and driving.

The authors have chosen to do an exploratory research in order to achieve their objectives. This type of research will give them the opportunity to approach Tage Rejmes bil AB's budget process in an efficient manner, in order to analyze and conduct the case study.

### **3.3 Data collection**

In order to answer the chosen research question of any given study, the authors need to gather the required data to test their hypothesis. Depending on which data collection method one chooses there are some major differences in the way one collects the data. There are two main ways of doing this, either through quantitative data or through qualitative data. Quantitative data can be measured numerically and often refers to the gathering of large data samples that is then tested for correlation. While qualitative data on the other hand is non-numeric and gathered directly to fit the given purpose (Saunders et al., 2009).

#### **3.3.1 Primary data**

The authors of this thesis have gathered their primary data for the purpose of this specific study. The methods that have been used for this case study is interviews and observations. Other common ways to gather primary data is through clinical trials, true experiments and randomized controlled studies (Saunders et al., 2009). When collecting primary data the researcher focuses on details that are important to him or her. It also refers to collecting data about the reality behind a phenomenon rather than the theory behind it (Saunders et al., 2009). During this thesis the main part of the primary data was collected through interviews. All contact through interviews and questionnaires was held with key persons responsible for areas of the company with interest to our research question and objectives.

Since the authors of this thesis are doing a case study, the data collection will primarily be made up by qualitative data. The data collection of the primary data will be gathered through personal communication with different employees at the company in question. In order to get a deep enough understanding of the company's budget process the authors has

chosen to have interviews with the management of all the company's operating subsidiaries.

### **3.3.2 Secondary data**

Unlike primary data, secondary data is already existing data collected for some other purpose. The secondary data that is publicly available, often through the internet or CD-ROM databases, and is most often gathered by organizations, government departments or researchers (Saunders et al., 2009).

Although you cannot use secondary data as a prime element when trying to answer your research question in a case study, the secondary data can provide some useful answers in your pursuit in doing so (Saunders et al., 2009). The secondary data collected by the authors in their work with this thesis is mostly made up by theoretical literature and academic articles regarding the budget process and its purposes.

## **3.4 Research strategy**

There are many types of research strategies, i.e. experiment, case study and survey, that all can be applied for exploratory, descriptive and explanatory research (Yin, 2003). Since the authors are working with a specific company they will use case study as their main strategy to answer their research question and to meet their. Saunders et al. (2009) writes that it is of importance to define the actual case when using a single case that none or few have considered before. Therefore the authors have will, in order to investigate the current situation in the budget process at Tage Rejmes bil AB, investigate the current situation in depth.

### **3.4.1 Interviews**

As stated by Kahn and Cannell (1957), an interview should be seen as a purposeful discussion between two or more people and a source to a mutual sharing of information. Since the authors of this thesis are doing a case study, interviews will help them to gather both valid and reliable data in their pursuit to answer their research questions (Saunders et al., 2009).

There are three different types of interviews that can be used depending on what purpose the interview should serve. The different interview types stated by Saunders et al. (2009) are structured, semi-structured and unstructured, the latter two are non-standardized and often referred to as “quantitative research interviews” (King, 2004). The authors of this thesis have found semi-structured interviews to be the best option in order to answer their research question since this allows the authors to adapt the interviews with regard to each situation. The semi-structured interviews conducted during this case study will also serve as the main research tool in the authors' information gathering.

When conducting semi-structured interviews the researcher should have a list of themes and questions that should be covered during the interview. These questions may however differ from interview to interview depending on the given organizational context that is encountered. Using semi-structured interviews the researcher can and should both omit and add questions and themes to their list as the research progresses. The questions will also be open-ended in order to give the respondents the opportunity to describe and define their answers. These answers can then be explored further by the authors in order to fully understand the respondents reasoning.

During this thesis, interviews were held with the top management of the parent company and all the six operating subsidiaries within the Rejmes Group. The interviews were all group meetings held at the headquarters of each subsidiary. Participating in the interview was the CEO, controller and department manager(s), all closely involved in the company's budget process.

#### **3.4.1.1 Outline of interviews**

As all research methods, interviews have both strengths and weaknesses that one has to be aware of. Using interviews helps the authors to keep focus the research topic while it is providing insight. The weaknesses are however that if the questions and themes that are used during the interview is not carefully considered and prepared, the risk of receiving bias and untruthful answers increases (Lundahl & Skärvad, 1999). One should also consistently ask for feedback and cross-check the answers received in order to avoid inaccurate results due to misunderstandings (Yin, 2003). The authors did also make sure that the right people

were participating during the interviews through consultation with Mattias Andræ. This was made in order to secure that key persons was not ignored or overlooked in accordance to what Lundahl and Skärvad (1999) states.

### **3.5 Quality assessment**

According to Saunders et al. (2009) there are three important aspects to consider when critically evaluating the research findings of a case study. These are reliability, validity and generalizability (Saunders et al., 2009).

#### **3.5.1 Reliability**

To persuade the reader that the research findings of an inquiry are worth paying attention to, the researcher need to acknowledge the importance of reliability (Lincoln & Guba, 1985). The reliability of the research should be designed in such a way that correct answers are provided, and that the answers provided cannot be questioned by chance. Furthermore, a high degree of reliability should implicate that a new, identical research will provide the same result (Lekwall & Wahlbin, 2001). The most common objection against empirical data collection, using qualitative method, is that interviews may not render the answers the researcher is looking for. This can occur when there is an already established relationship between the interviewer and the respondent, or when using leading questions. There is also the issue of non-actuable factors affecting the respondents' answers, such as fatigue and lack of motivation (Lekwall & Wahlbin, 2001; Saunders et al., 2009).

In order to achieve a high level of reliability the authors made sure that only employees with deep knowledge of the company's budget process was interviewed. The selection of suitable employees was made through a consultation with Mattias Andræ. After each interview occasion the information was quickly interpreted in order to limit the loss and misinterpretation of the information received.

### **3.5.2 Validity**

Validity in qualitative research refers to maximizing the trustworthiness of the information attained in order to ensure that you reach a “credible and defensible result” (Johnson 1997). It also refers to that the information the research is based upon really measures or explores the reality in a correct way (Merriam, 1994). Lundahl and Skärvad (1999) refer to this kind of relationship between two interrelated/interconnected variables as internal validity.

To make sure that the internal validity of the information received is as high as possible, the authors have designed an interview questionnaire specifically for the given purpose, matching the research topic. Further, the authors have obtained in-depth knowledge regarding the research subject which will help to provide some insight and judgment regarding whether or not the information received is credible or not. If questions regarding the credibility are encountered, follow-up questions will be used in order to solve any misunderstandings or slip of tongue etc.

### **3.5.3 Generalizability**

The concept of generalizability, also known as external validity, refers to what extent the research result is generalizable in an external context (Saunders et al., 2009). Meaning to what extent the result of the study is applicable to other research settings or organizations within the chosen field of study.

Due to the absence of statistical evidence and data it is hard determine the generalizability of a single case study. According to Merriam (1994) the problem with weak external validity is very common for case studies in general. However, this kind of research has a strong internal validity due to the fact that the information gathered is made up by primary data. The result from a case study can instead be generalized and by creating patterns or create theory and by using existing theory as a point of reference, the authors will be able to evaluate their empirical result (Lundahl & Skärvad, 1999). This is referred to as an analytical generalizability (Yin, 1989) where an interaction between the research question and the empirical data takes place.

The authors' goal is not to generalize a specific budget process but rather analyze and customize a budget process for this particular case study.

## 4 Empirical findings

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*In this chapter the authors will provide the reader with a summary of the information gathered about the budget process at Tage Rejmes bil AB. The information was obtained through in depth interviews with Mattias Andræ and personnel at the company's subsidiaries working with the budget. Empirical data was also obtained through the company's annual report and web page. The chapter is divided into two sections, first the findings at the parent company and then the findings at the subsidiaries.*

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### 4.1 Empirical findings for Tage Rejmes bil AB

*“Our vision is to deliver a full-service center for cars, with focus on customer satisfaction.”*

M. Andræ, personal communication, 2012-03-09

Tage Rejmes bil AB is one of Sweden's largest family owned businesses within car retailing and car services, accounting for 6 % of the total market share (M. Andræ, personal communication, 2012-03-09). The company was established in Ulricehamn in 1950 but moved its business to Norrköping in 1958, where the company's head quarter is still located. They are authorized dealers for cars, trucks and buses on behalf of brands such as Volvo, Renault, Ford and Dacia (Tage Rejmes bil AB, 2010). The company has approximately 700 employees spread over 15 different locations around Sweden. They operate within Östergötland, Närke, Västmanland, Södermanland and Småland. The company's turnover in 2010 was approximately 2, 5 billion SEK (Tage Rejmes bil AB, 2012).

The Group consists of six operating companies, two real estate companies and a parent company. Together these companies form the Rejmes Group, where Tage Rejmes bil AB is the parent company. The parent company has the primary task of managing the operating companies in which the group's day-to-day business is carried out. They are also responsible for the group's treasury and capital, information systems, and corporate administration (Tage Rejmes bil AB, 2010).

#### 4.1.1 Budget purpose

Tage Rejmes bil AB has a wide range of different purposes with their use of the budget. It has a pedagogical purpose, in the sense that it creates a discussion about the business and how the different goals should be achieved. Since Tage Rejmes bil AB often recruits new staff to higher position by internal promotion, a lot of the people involved in the budget process lack an educational background in economics. Because of this, the budget process becomes a balancing act between knowledge level of the involved employees and how advanced the budget system can be. The budget also acts as a basis for performance reporting and the incentive system. According to Mattias Andræ their budget has the following stated purposes (M. Andræ, personal communication, 2012-03-09). The purposes are, except from follow-up, in accordance with what is stated by Lars Samuelson.

- Planning
- Coordination
- Resource allocation
- Dimensioning
- Responsibility distribution
- Communication
- Awareness
- Targeting
- Motivation
- Basis for incentive system

#### 4.1.2 Current budget process

The budget process at Tage Rejmes bil AB is over 20 years old and is based upon an excel sheet application. The time period for the budget is the same as the fiscal year, January till December. The budget is fixed for the whole year and it is only in rare cases that the budget has been revised, often due to different financial crisis which has rendered the budget useless. The company is using the budget from the previous period and the outcome of the last 8 months as a base for the new budget. Other variables that are considered by the management is, expected sales for the upcoming period, storage levels, rents, changes in

wage level, investments, etc. Expected sales are based on estimates made by BIL Sweden and the company's suppliers. BIL Sweden is the Swedish trade association for manufacturers and importers of cars, trucks and buses (BIL Sweden, 2012). Apart from these short term variables valid for the next 12 months, long term goals are also considered. These long term goals includes return on owners equity, expected company growth rate and continues improvements (M. Andr , personal communication, 2012-03-09).

The budget process starts in September with the parent company's management setting up conditions for the upcoming period. Given the parent company's conditions, each subsidiary constructs their own budget starting at department level and has until the end of October to finish their budget draft. These subsidiary budget drafts are then reviewed, revised and approved by the parent company. By the end of November the company's master budget is finalized through a board meeting approval. (M. Andr , personal communication, 2012-03-09)

Budget follow-ups and evaluations are made on a monthly and yearly basis. Even though follow-ups are made, the company has no standard action plan regarding how to handle deviations and abnormalities. However, if excessive deviations or abnormalities are observed in departments, management might have to "take a good talk" to the department manager where the deviation occurred. Normal wise, the company's management is pointing out that something has to be done in order to get a grip on the current result and steer it back in the right direction. Regarding the work with the budget analysis, the company is currently unable to do any real changes or modifications to the budget due to limitations in the budget system (M. Andr , personal communication, 2012-03-09).

### **4.1.3 Budget tool**

Tage Rejmes bil AB is currently using an Excel based application for creating their budget. This application is about 20 years old and has never had any major updates. This excel application is structured in a logical way and is considered to be relatively easy to understand. All costs are calculated at account level, meaning that no costs are merged into bigger cost units. Since there are connections between interrelated accounts, communication between different departments is vital. Because when e.g. department managers at the service center

make changes to the amount of expected hours of service sold it also impacts the volume of goods sold in the spare part department. Each cost unit creates its own budget within the budget tool. These budgets are then aggregated into the department budget (M. Andra, personal communication, 2012-03-09).

## 4.2 Empirical findings for the operating subsidiaries

In this section the authors will present what was observed at the subsidiaries in the case study. The six operating subsidiaries within the Rejmes Group are all involved in the budget process and has all been observed. The subsidiaries are located in three different cities, Norrköping, Linköping and Örebro, and they are all presented below. (Tage Rejmes bil AB, 2012)

- Norrköping
  - Tage Rejmes i Norrköping Bil AB
  - Forema Bil AB
  - Tage Rejmes Lastvagnar AB
- Linköping
  - Tage Rejmes i Linköping Bil AB
- Örebro
  - Tage Rejmes i Örebro Lastvagnar AB
  - Tage Rejmes i Örebro Bil AB

### 4.2.1 Budget purpose

The purposes with budgeting, according to the subsidiaries, are mainly to map and plan their respective company in accordance to the current market conditions and their market share. The product coming from the budget process is seen as a commitment by the subsidiaries of how they will fulfill the conditions given by the parent company. All subsidiaries feel that they communicate the budget throughout the whole organization and that everybody have access to it. Despite having access to the information, it is hard to use the budget as a motivational tool. Since many of the workers have a weak ability to understand how they are contributing for the company, motivation through the use of the budget is

hard to achieve. The fulfillment of the budget is also used as a base for incentive systems (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

#### **4.2.2 Current budget process**

The budget process starts in the end of September with the conditions sent out by the parent company. These conditions set by the parent company, are expected car market, defined sales volume per district, defined charge for services in the workshop, performance of employees (e.g. cars sold per salesmen or effective hours per mechanic), etc. The heavy duty retailing subsidiaries has neither a defined market nor any defined charge for their services. It is their own responsibility to estimate the sales volume for the local market with the help of their supplier, Volvo AB, and their own sales men. All operating subsidiaries do however receive a defined shareholders request. Internal costs are also defined, such as rents for buildings, interest rate for borrowing money and employment tax. Efficiency aspects are also defined in the budget's conditions. The company applies LEAN thinking and goals for the LEAN process are therefore defined together with budget's conditions. LEAN implies that the company works with eliminating non-value creating activities. Rejmes Group has defined their LEAN work in figures, profitability improvement of 5 % were 2 % comes from price adjustments and 3 % from increased efficiency (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

Through the parent company's conditions, the budget frame is set and the internal work with planning can take place. In week 40, the excel sheet application is available and thereby the work with interpreting and applying the conditions on department level is taking place. The budgets are built up differently regarding costs and revenues. Costs are aggregated from each department, while revenues are decomposed from the top down to department level. Each subsidiary has one budget for each cost unit which gives a number of approximately 30-40 budgets per subsidiary. When each department budget is set, all the department budgets are aggregated into the subsidiary's master budget. Adjustments in department budgets are then made by the controller and CEO of each subsidiary, together with the responsible department manager. This is done in order to meet the conditions given by the parent company. By the end of October, in week 43, the excel sheet application is

locked and thereby no further changes can be made by the subsidiaries (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

When the subsidiaries' have finished their budgets, it is up to the parent company to go through and analyze each subsidiary's budget. In the beginning of November, the parent company invites representatives from each subsidiary to a meeting where the subsidiary budgets will be presented and discussed. At this meeting, each subsidiary representative will have the opportunity to explain their thoughts behind the given budget. There are often adjustments to each subsidiaries budget after this meeting, in accordance with instructions from the parent company. The most common result is that sales volumes are perceived as low by the parent company and therefore should be adjusted to a higher figure. After these adjustments are made, the Group's master budget is set through a yearly board meeting. When the budget is set for the whole group, representatives from the labor unions are informed about the company's budget. Traditionally the unions should also accept the conditions set in the budget, but the meeting is more seen as an informational meeting which does not impact the budget's content. Through this final meeting the Tage Rejmes Group's budget is set for the next 12 months (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

Total work time for each budget, involving all work with the budget till it is set in November, is estimated to 3-6 days depending on the size and complexity of each cost unit. Since each subsidiary has 30-40 cost units, the total work time is estimated to 90-240 days of work. An estimation of the time spent on only planning the budget, for all the operating subsidiaries, is 540-1440 days. The time spent does however differ among the subsidiaries which makes it hard to estimate the exact time spent (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

When the budget has become an action, there are frequent follow-ups made by all the subsidiaries. Each Monday, last week is followed-up to see how the business is doing. The weekly follow-up includes all days of last week with information about i.e. number of new invoices, new orders and orders that is processed. It is internally called "the weekly pulse". Follow-ups are also made on a monthly basis. These monthly follow-ups presents in detail

and shows how each subsidiary is doing and how the Group is performing as a whole. Daily follow-ups are taking place in some subsidiaries, e.g. in workshops to see how the daily work has proceeded in relation to what was planned. At year end, the yearly budget is benchmarked with the actual outcome but no detailed analyses are made on account level. It is neither any real analysis of costs structures for the next budget year nor are the conditions questioned or adjusted (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

### **4.2.3 Internal opinions**

The internal opinions about what is good and what is not so good regarding the overall budget process and the tools used is more or less consistent among the Group's subsidiaries. The current budget tool is seen as user-friendly and the information it produces is easy to understand. It is easy to follow the digits and how they are interrelated with different cost accounts. There are currently some issues regarding links in the excel-tool that is not working as they should. Another issue is that some parts of the tools is considered as too profound, such as personnel costs were the managers' costs should be distributed among different cost units. It is widely considered that this part of the budget is becoming a guessing game and there by lacks any kind of relevance (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

There are some disagreements between the management groups regarding the relevance of the information that the budget provides. While some thinks that the tool gives them a good overview of the current status of their business with focus on important cost accounts, others claim that the information is somewhat overrated and does not reflect the true value-creating factors. These are better explained and presented by non-financial ratios that are currently not included in the budget (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

Regarding the conditions set by the parent company, all subsidiaries think that the expected sales volume and the expected return to owners are relevant. However, some of the subsidiaries would like to be less controlled and have more responsibility regarding how they should reach the given conditions. The main problem that the subsidiaries have regarding

the current conditions is that they are the same for all subsidiaries, regardless of sizes and location. Conditions that are proper for Rejmes in Linköping might not fit for Rejmes in Norrköping or Örebro. If the conditions need to be extensive, the subsidiaries would prefer more carefully prepared and thoughtful conditions for each specific location. Suggestions have also been made that the conditions from the parent company could be influenced more by average market values. This would give the subsidiaries a better and more realistic aim regarding the prices they could charge and what kind of profit they making (Personal communication with all operating subsidiaries within the Rejmes Group, 2012)

The current structure involving the use of gross prices when doing work internally has been overall criticized. Opinions has been raised that this kind of chargeback between the departments creates closed sections that only thinks about themselves, leaving the company weaker as a whole. Instead some advocate that internal benchmarking of best practices should be made in a much greater sense in order to make the company develop by sharing internal knowledge and expertise. Some managers also pointed out the importance of good management. Having a good management team that frequent discusses issues of how to bring the business forward is considered to be more important than the budget. The budget is however a good base for planning the company's cost structure and to spot divergence (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

#### **4.2.4 Desired budget**

While two subsidiaries claimed to be satisfied with the current budget process, except from some minor exceptions regarding the budget tool and the conditions, suggestions regarding alternative methods have been made at every other subsidiary visited. Some managers would prefer to move away from the current budget system, where the budget is made at account level, and make a more general budget were accounts are merged. This, in order to save time but still getting a general grasp of what is planned and expected of the business (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

An evolvement of the current excel sheet application was also demanded. A feature allowing managers to create their own account hierarchies is widely desired among the subsidiaries, which also would increase the use of the budget as a tool in the daily work. This is

claimed to be helpful when managers want to highlight specific accounts or compare different departments (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

Department managers and subsidiary CEOs also want to work more with non-financial ratios that they believe better highlights the value-creating activities. Since the company is currently working with LEAN thinking, this would be a way to further commit to this approach. There was also the opinion that non-financial ratios such as customer satisfaction, market share and the number of customer visits per sold car or truck would be better ratios to focus on in order to better understand and motivate employees. This kind of ratios was also considered to better reflect the factors behind any problem (Personal communication with all operating subsidiaries within the Rejmes Group, 2012).

## 5 Analysis

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*This chapter presents an analysis of Tage Rejmes bil AB based on information presented in the empirical findings and the theoretical framework. The analysis will process if the budget fulfill its outlined purposes, how Tage Rejmes bil AB works with the budget and internal opinions observed at the company's subsidiaries. The analysis will result in the case study's conclusion.*

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### 5.1 Fulfillment of budget purposes

Tage Rejmes bil AB's budget purposes has a lot of similarities with what is stated by Lars Samuelson in his research. The different purposes, observed by the authors, are considered and implemented differently among the subsidiaries with regard to individual situations. Some operating subsidiaries are considering one set of purposes when preparing and setting up their budget, while others are using the budget for a different set of purposes. What the authors have experienced to be the purposes at one subsidiary could be considered totally irrelevant at another. This makes the fulfillment of the budget's purposes vary between the different subsidiaries. It is important to stress that the authors' observations are built on interviews with involved personnel and not observations of the actual budget process. The authors believe that being a part of and observing the actual work would have given a greater understanding of how the budget process works and how it is perceived by employees throughout the organization. This type of observation would though be time consuming and the material obtained would probably be extensive. However, this case study is based on interviews with all of the operating subsidiaries were the authors' have been given the opportunity to identify individual shortcomings, general shortcomings and advantages with the current budget process. This would not have been possible if the case study would have taken place at only a few subsidiaries, or only the parent company.

Using the budget as a tool for planning the business the most common purpose among the subsidiaries. Almost all of them started off by mentioning that planning was one of their budget's purposes. According to authors observations, planning are considered to be the most important purpose within the Rejmes Group. The characteristics of the planning

within the Rejmes Group can be seen as realizable and not a procedure where the company is playing with unrealistic figures. Rejmes can be said to use neither an optimistic nor a pessimistic future outlook as Lagerstedt & Tjerneld (1991) describes. Risk can therefore be considered to be held at a “neutral” level. The budgets main goal is to plan the business for the future period, where the upcoming costs and revenues are both considered. This is in line with what is stated by Mintzberg (1979) and helps the company to fulfill its long term goals.

Abernethy & Brownell (1999) states that good coordination is contributing to the effectiveness of an organization. The budget can, according to Bhimani (2008), be used as tool for coordinating various relationships within the organization. Due to Rejmes Group's budget structure, where the planning procedures are comprehensive, coordination between different departments has to be made since a lot of them are synchronized in the current budget system. The budget system helps Rejmes to coordinate and, as Ax et al. (2006) states, helps everyone within the company to work towards the same goal. As Lagerstedt & Tjerneld (1991) states, coordination is not only about financial data but also coordination in questions regarding how the company should prioritize and be organized. According to the authors' observations, this is the case in each subsidiary but not the case when looking at the whole Rejmes Group. Group-wide coordination could be better regarding resource allocation and organization, e.g. Group-wide car purchases could help the group as whole to benefit from discounts on orders with larger volumes instead of letting each subsidiary purchase their own set of cars.

Through good coordination and allocation of resources the company can maximize the return of the resources (Grevé, 2011). Since Rejmes budget planning is in detail, each account is considered and evaluated. By considering each cost account on a yearly basis, the company has the opportunity to plan and maximize its resource allocation. If this would not have been done, costs accounts would not be considered and loss of resources could therefore occur.

Applying dimensioning as a budget purpose implies that the company should determine the capacity of specific units with regards to demand. The Rejmes Group's budget system,

which is planned in detail, helps the company to dimension all its departments in accordance with common volumes. As Kullvén (2009) states, each department is given the opportunity to oversee if they are dimensioned in accordance with the expected sales conditions. Questions regarding number of personnel, premises and other resources can be reviewed and evaluated within the current budget system. There is also a connection between different departments, through the excel sheet application, which dimensions all departments to a common volume.

According to Kullvén (2009), a company needs to distribute responsibility to managers in order to efficiently achieve the company's short term and long term goals. The budget should be seen as a tool of guidance for the managers in their work towards achieving these goals. The responsibility distribution within the Rejmes Group is observed to differ among the subsidiaries. Some subsidiaries have implemented responsibility distribution deep within the organization, where department managers are held responsible for his or her department. Other subsidiaries haven't implemented responsibility at department level, but are having managers at higher level responsible for the performance of different departments.

Good communication is essential in order to distribute the budget's content throughout the whole organization (Grevé, 2011). It is also essential that the communication goes both ways, not only from top-down but also the other way around. By having a two-way communication, department managers will get a different perspective on both ideas and problems. The authors' observations show that communication may not be fulfilled throughout the organization and has room for improvements. Rejmes goals and objectives are clearly stated in its budget. However, its distribution is not complete throughout the whole organization. According to the authors' observations, management and department managers are the only ones who are completely aware of all the budgets goals and objectives while the employees at lower level have a different degree of awareness. The degree of awareness is different among the subsidiaries, depending on how the subsidiaries have implemented the budget in the organization. By communicating goals and objectives throughout the organization each employee becomes aware of how he or she is contributing to the final result (Kullvén, 2009). Among Rejmes' subsidiaries, using the budget to make the employees

aware of their contribution is considered to be very important. These objectives are however hard to achieve since many of the employees at lower level do not fully grasp the information provided in the budget and thereby loses interest of the information provided.

Setting realistic targets is a very important step in creating awareness among the employees regarding the company goals and objectives (Ax et al., 2006). Targets and targeting is a well known concept at Rejmes. The company has been working with setting up targets for their employees in order to make them aware of what is expected of them for a given period. This helps the employees to understand how he or she is contributing to the company and what he or she needs to perform in order for the department to meet the given goals and objectives. The authors have observed that targeting is a well implemented purpose among the Rejmes subsidiaries and that the budget helps, as a tool when setting these targets.

Motivation is considered to be an important factor when creating an effective organization. An observed problem is that motivation tends to diminish as the budget is communicated to lower levels. When there is a low level or no communication regarding the budgets content the employees will lose interest. Workers' performance need to be discussed and expectations of their work should be communicated. As Hay & Williamsson (1997) states in their research, motivation is created when workers are informed about the company's expectations. When a discussion is raised about the performance, awareness is created and thereby motivation. Wallander (1995) states that benchmarking is a good tool for motivating personnel. According to his research, companies should benchmark with other companies and other departments within the company. By doing this, the performance of the department or the company can be directly compared with a similar unit. This makes the information more interesting to lower level employees since the departments' performance becomes directly comparable with respect to others. The budget may also be based on wrong factors or trends which makes benchmarking a good tool to use when the company cannot revise their budget.

In the case when companies base their incentive system on the difference between actual outcome and what is budgeted, managers may respond by delivering highly conservative budget to achieve his or her goals. When underestimating the budget's revenues, one can

refer this to padding the budget or introducing budgetary slack (Bhimani et al., 2008). The budget at Rejmes is connected with their incentive system. This gives a good base to reward performance within the organization but can trigger manipulations in the planning process (Bergstrand, 1993). According to the authors' observations, a lot of the problems associated with budgetary slack are eliminated due to the extent of conditions set by the parent company at Tage Rejmes bil AB.

The fulfillment of each budget purpose varies considerably among the company's subsidiaries. Even though all purposes mentioned by the parent company is not stated as a budget purpose by each individual subsidiary, the authors observations have in fact proved that neglected purposes are fulfilled to varied extent. This is a result of a connection between the purposes which makes the budget have more purposes than what the managers might think of. The connection between several purposes can create problems. When a company or department fails in the fulfillment of one purpose, other purposes might be compromised.

## **5.2 Budget process**

Tage Rejmes bil AB uses a mix of the two methods when gathering data for the upcoming period, current business situation and market situation. As a base for the upcoming budget, Rejmes uses the budget from the previous period and the result of previous 8 months. These figures are adjusted with regards to the current market situation, where forecasts from BIL Sweden and suppliers are considered. The basis for the budget is transferred by the parent company into a document of conditions. This document contains information that each subsidiary needs to consider when the budget is prepared. According to the subsidiaries, the conditions handed out by the parent company are too extensive and does not allow any larger modifications to the local market situation. The result of extensive conditions makes the budget lose or oppose some of its purposes. Not letting each subsidiary set their own budget results in a diminishing level of responsibility distribution were the department manager is not responsible for his or her budget in the same sense as if he or she would have done it themselves. These strict conditions have the same effect when it comes to motivation. Not letting the department set its own goals will lead to a loss of motivation

since the employees will not feel like they are involved in the process and the budget therefore becomes a threat rather than a tool. At the same time, the observations made shows that conditions are in fact appreciated to some extent. It is appreciated to know what they need to deliver in terms of expected profit. However, the general feeling among the subsidiaries is that the amount of conditions that has to be considered results in a feeling of getting told what to do rather than what to deliver. Arwidi & Samuelson (1993) promotes the importance of treating the operating units within a company as “profit units” rather than “cost units”. The authors think therefore that the company should see its subsidiaries as profit units.

The Rejmes Group's master budget consists of a budgeted income statement, budget cash flow statement and a budgeted balance sheet. These three statements are built up from each subsidiary, using sub-budgets for each cost unit. Rejmes can therefore be said to use department budgets, rather than function budgets. The purpose of the mater budget is to coordinate all financial projections made in individual departments and summarize them into an organization wide budget (Bhimani et al., 2008). Each department budget is based on conditions from the parent company, which has been decomposed at department level. Since the conditions are broken down on department level, each cost unit builds its budget with regard to these conditions. Using this method, Rejmes can be said to use a mix of top down method were conditions are broken down, and bottom up method were the budget is built up from the conditions. Effects arising from the use of the top down method may be that it loses its function as a source to new ideas about expansions, working methods and other aspects from the different departments that would have been obtained otherwise. When the departments are told what to do and not asked what is possible to do the commitment to contribute to the organization might be lost (Kullvén, 2009). Problems related to the bottom up method is that it can be time consuming and makes departments demand a lot of resources. When a lot of resources are requested in each department the top management will have to cut off parts of the budget in order to save cost and make it viable (Kullvén, 2009). Tage Rejmes bil AB's method of constructing the department budgets have the advantage of both described methods. Excessive requests of resources are

prevented through the use of conditions. This does however not affect the department's work with creating ideas and discussions regarding the budget.

Follow-ups should be made in order for the company to analyze and learn from the previous period. Doing this will help the company to better understand deviations from planned result so they can change the plan or the budget to better match the result in the future. Even though follow-up are not one of Rejmes purposes they still evaluate their performance at year end. The main focus is then set on what is considered to be relevant deviations, which is in accordance with what Samuelson (2004) states. According to Grevé (2011), companies should end their budget process by evaluating their current process in order to improve and make better budgets in the future.

### **5.3 Internal opinions received at the operating subsidiaries**

The overall opinions regarding the current budget process are more or less consistent among the company's subsidiaries. All of the subsidiaries consider the Excel based budget tool to be user-friendly and the information it produces as relatively easy to understand. There is however some disagreement among management groups regarding the relevance of the information that the budget provides. Some considers a detailed budget to be unnecessary since the company becomes non-dynamic with regards to cost allocation and costs are nevertheless allocated differently than budgeted. Others consider a detailed budget to be good since every account is reviewed and cost can be questioned.

Some of the subsidiaries would like to see an evolvement of the excel sheet application, so it can be used in the daily work. That implies a comparison among different departments, different subsidiaries and other interesting variables which can help the user to benchmark its department or subsidiary. Since the authors have encountered more or less the same problems with the budget system at all of the subsidiaries, observations show that the budget system is in need of an update. This could either be achieved through a plain update of the current budget system or through obtaining a new system. Since the current budget system is deeply rooted within the Group and everyone appreciates the current budget tool, a new system would probably be too time-consuming considering the implementation process. Since the current budget tool is widely appreciated, Rejmes should look into the op-

portunity to develop the current excel based application and try to add some desired features.

While some of the subsidiaries appreciate the current conditions set by the parent company, some would like to take a bigger responsibility themselves. With fewer conditions to consider, they believe that they have a greater possibility to allocate their resources in an efficient manner. Still some conditions are appreciated, such as expected return and sales volumes. As the authors have come to realize, the given conditions does not leave much room for any larger changes at department or subsidiary level. This because the given conditions form, more or less, the whole budget. As Drury (1996) states, problems can arise if the whole budget is decided by top management. These problems can be expressed in a lack of motivation where the budget becomes a threat rather than a tool. Defining goals and objectives are, according to Ax et al. (2006), appreciated since it makes the subsidiaries aware of what is expected from them. The authors believe that, letting the subsidiaries individually develop their own budget would motivate them to a higher degree. If the parent company would leave the subsidiaries with fewer conditions to consider, such as sales volumes and expected return, this could help the individual subsidiary to better adapt to their local market.

A general problem among the subsidiaries is that they have experienced problems in motivating employees due to the employees' limited ability to understand and grasp the content of the budget. They believe that if the budgets content can be transferred into an action, the employees would easier understand what is expected from them and in that way have the ability to work towards that target. In order to implement the budgets content easier, the subsidiaries could work with non-financial that provide the management with an action rather than just figures.

#### **5.4 Budget as a management tool**

The authors have in their research encountered a lot of criticism towards the use of budgets. Budgets have been claimed to be an old fashion way to plan a business since it is only focusing on financial aspects (Johnson & Kaplan, 1987). Lindvall (2001) argues that being limited to only financial information, in the budget, requires that the recipient of the in-

formation acts in a desirable manner. Since financial information is ultimately based on human decisions the outcome is never completely predictable. With more knowledge about the business operations and human behavior, the company can make better predictions regarding possible outcomes. Due to the criticism more complex management tools that include more than just financial variables have been developed, such as the balanced scorecard and business planning (Ax et al., 2006). Jan Wallander, former chairman of the Swedish bank Handelsbanken AB, advocates business planning instead of budgeting with the main argument that the budget fails to adopt sudden changes in the market which renders the budget's function as a tool of guidance useless (Wallander, 1995). Even though there are a lot of criticism towards the budget, the authors of this thesis believes that the budget is a good planning and controlling tool. The budget does however face some problems and is not maximized without the correct implementation and use of it. There are some studies performed on the criticism of budgets. Ekholm and Wallin (2000) finds that even though that there are criticism about budgets, which also is confirmed by a lot of companies, their study showed that 85, 7 % of Finish companies used the budget as a planning tool. What they also found was that a lot of companies worked with evolving the budget process by finding complementary planning tools, such as forecasts and balanced scorecards. Ekholm and Wallin (2000) believes that the criticism partly is founded by exaggerated criticism from consultants that constantly are trying to implement their specific control systems. Silstrand and Torstensson confirms Ekholm's and Wallin's figures with their study conducted in 2001, where 92 % of 183 Swedish companies within the engineering industry answered that they used budgets. Another research found that 91 % used budgets in 1996 (Gafvelin & Kamolas, 1996). Johansson et al. (1997) conducted a research in 1997 of Swedish publically traded companies and the result showed that 84 % of the companies worked with budgets. What is significant for these studies is that the companies in their work with evolving the budget have implemented a hybrid tool, where the budget has been complemented with a forecast tool. Only 14, 3 % of the Finish companies have abandoned the budget and uses only forecasts or balanced scorecards (Ekholm & Wallin, 2000). Ekholm and Wallin (2000) concludes that the budget is hard to replace due to its ability to create internal efficiency. Ekholm and Wallin also conclude that the budget as a management tool have had its period of greatness and today the budget shows weakness as a planning tool for the external

environment. This is due to changed business environment where information and economic cycles can change direction fast (Ekholm & Wallin, 2000).

## 6 Conclusion

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*This last chapter contains a conclusion of what the authors have observed and found in their case study at Tage Rejmes bil AB. This is also where the authors attempt to answer the research questions of this thesis.*

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The purposes outlined by Lars Samuelson have a lot in common with the purposes outlined by the parent company, Tage Rejmes bil AB. In this case study, where each of the purposes has been evaluated, observations have shown that the purposes have a lot in common with each other and are in fact dependent on each other. The observations made at each subsidiary and the parent company show that there is a variety of the degree of the implementation and thereby the fulfillment of the purposes. The authors believe that a well structured budget, with the correct focus and right tools, can fulfill the purposes outlined by both the parent company and Lars Samuelson. According to the observations, improvements can be made within both the communication and the distribution of the budget's goals and objectives. Non-financial ratios would help the company to implement the budget's content throughout the organization and would create a better understanding among the employees. A budget that defines actions to fulfill the budget's goals and objectives would become a great advantage in the implementation process at Tage Rejmes bil AB. This would make the organization more committed towards both short term and long term goals of the company. Using non-financial ratios would also strengthen Tage Rejmes bil AB's work with LEAN where measures regarding continuous improvements could become a vital part of the budget.

According to theory, too much decisions made by top management can make the budget become a threat rather than a tool for the operating subsidiaries. As the result from interviews shows, the extent of conditions for planning the budget has an impact on the subsidiaries motivation. According to some of the subsidiaries, they would become more committed if the budget would allow a greater ability to situate the budget with regards to the local market conditions. Today, the given conditions are more or less setting up each subsidiary's budget due to the extent of conditions given by the parent company.

The budget process is structured in accordance with known models and the observations show that the time span for planning the budget is sufficient. In respect to the time span for planning, the use of the assigned time differs between the subsidiaries. Some are working with the planning process throughout the organization, while others are having the planning procedure done in a couple of days. These subsidiaries are not going through the organization in detail or involving employees at lower levels. The authors believe that time spent in the budget process cannot be reduced without having a negative effect on the budget's ability to steer the organization. Instead the authors believe that the time used today can be used in a more efficient manner and thereby resulting in a more satisfying result, where the budget unlike today can have a better influence on the year end result. A dynamic budget tool, which generates non-financial actions, would ease the implementation and fulfillment of the budget's purpose, goals and objectives.

The result from the authors' case study has showed that the budget has the potential to be a good tool for managing the organization. There are however vital factors within the budget process, such as the excel sheet application and the managers process of implementing the budget, which need to be evolved in order to maximize the budget as a management tool. The study also shows that the budget is a good tool for achieving an effective allocation of resources internally but that it fails to adapt to external changes in a desirable manner. Therefore the authors believe that a complementary tool for predicting and analyzing future changes, that the budget fails to adopt, should be used simultaneously during the budget period. This would prevent the company from being surprised when changes in the market occur. Cost structures and employment levels are factors that have a weak ability to change on a monthly basis. The budget should therefore be complemented with a forecast tool which is based on intervals of a rolling year or a quarter of a year.

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## Appendix I

### Interview questionnaire

1. Vilket/Vilka syfte(n) anser du/ni att budgetering har hos Rejmes?
2. Vilken betydelse upplever du/ni att budgeten har hos Rejmes?
3. Generellt om budgetprocessen:
  - a. Vilken uppställningsmetod används?
  - b. Hur arbetar ni med uppföljning?
  - c. Hur jobbar ni med budgetanalys?
  - d. Hur använder ni budgeten i er verksamhet?
4. Vad har ni för utgångspunkt gällande budgetering?
5. Hur byggs delbudgetarna upp och vilken typ av delbudgetar använder ni?
6. Vilka hos er är involverade i budgetarbetet/processen? (vilka medarbetare och på vilken nivå)
7. Vilken tidshorisont har ni för budgeten? (månad, kvartal eller år)
8. Vad händer med avvikelser från budgeten (både positiva och negativa avvikelser)?
9. Synpunkter på nuvarande budgetprocess?
10. Hur skulle ert budgetarbete kunna utvecklas?