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The Budget of a Startup Company

The Process of Creating and Using the First Budget from Four Startup Companies – A Multiple Case Study

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Abstract

The purpose of the paper was to show how a startup creates its first budget and uses it during the first budgeting period. The budget is the most widely spread and used management control system that helps managers to operate the activities. The most important functions of budgeting are planning, controlling, coordination, communication and evaluation the performance of employees. This paper uses the five functions together with explanatory multiple case study to see how four startups – Steemera, Full Fresh, Kiwi and Happy Eat create and use their first budget. Following the startups` actions through the prism of the five main budgeting functions the final results shows six important blocks in startups` budget. Creating the budget is taking place while building the business model of the company and conducting the market research. The budget helps the founders to evaluate the profit potential of the startup and take the decision to start the business. Planning the budget is based on the potential customers' desires as a result from the market research. The budget should be analyzed on a short time basis and changed if it is needed. When it is updated, helps the founders to foresee the near financial future of the company. Furthermore they compare the actual performance of the company to the planned one and take corrective actions if it's needed. Evaluation of the performance should be directly related to the performance.

Key words: **startup**, **budget**, **performance**, **planning**, **controlling**

Introduction

Today in the 'world of internet' everybody has access to immense amount of information online. Today having an idea about new business and turning it into a startup company is not as difficult as it used to be twenty years ago. Many young students or people who are not related to business can go online, browse some useful information about starting a business and turn their ideas into reality without having a lot of funds. Entrepreneurship has never been so accessible - if a person has a good idea and he or she can take the risk, starting the company with some savings and without real experience in entrepreneurship can easily become reality. However, there is a big gap between starting a company and developing your new company into a profitable organization. The profitability of the company can be seen from its budget, and since all companies are made for earning money out of them budget becomes important part of the process of developing company. The question is what really comes to an entrepreneurs` mind when they hear about budget for first time? The modern word "budget" comes from the Latin word *bulga* which means a little pouch - a little pouch where you can store your money and bring the pouch always with you to meet your everyday expenditures. In today`s world budget is very widely spread in the personal and professional life of the people. Every family creates a piece of paper where they calculate how much they earn from different sources and how much money they spend for living. Many college or high school students create a budget based on the money they get from their parents and spend for a month or a week. Budget can also be created for an event or a special occasion, for example if a company starts a new project, or if an organization makes an event. Budgets are created for weddings, parties and even for groceries. The word budget is widely spread in the situations explained above, and that might make the startup company founders think about the budget more from the perspective of simple calculations of money rather than corporate budget. Many people probably think that budget is just a simple piece of paper or excel table containing some suggestions about the expenditures and revenues of the company where with simple calculations you can come up with the profit of your company. Actually budgets in the companies are something much more important and complicated - it is management accounting system (Davila & Foster, Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies, 2005)Management accounting systems (MAS) is a subset of a management control systems – interpreted as "formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities" (Simons, 1995)To simplify that

– if a startup wants the have a budget that is part of the young company`s management control system, the founders need to look beyond the groceries and family budgets.

Within MAS, budgeting systems have a long research tradition. Much of this investigation has examined budgeting in established companies. (Davila & Foster, Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies, 2005) In contrast there is minimal research on budgeting practices in startup companies. (Davila & Foster, Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies, 2005) Most of the budgeting in startup companies is researched as part of articles for management control systems for startup companies. Antonio Davila and George Foster have written a couple of articles regarding the management control systems in early-stage startups. The one that I have already used above is “Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies” (Davila & Foster, Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies, 2005) which together both with another article on a related topic from the same authors “Management Control Systems in Early-Stage company” (Davila & Foster, Management Control Systems in Early-Stage Startup Companies, 2007) use a sample of 78 startup companies and investigate the adoption of eight management accounting systems including operating budgets. They examine the most widely spread management accounting systems in the early stage companies and the variables that are associated with the rate of adoption. The same two authors together with Mu Li have written another paper “Reasons for management control systems adoption: Insights from product development systems choice by early-stage entrepreneurial companies” (Davila, Foster, & Li, Reasons for management control systems adoption: Insights from product development systems choice by early stage entrepreneurial companies, 2009)where based on a sample of 69 technology-based early-stage companies, the paper examines the adoption of management control systems within an organizational process where innovation has a pivotal role: the product development process. The research is focused on seven management control systems and one of them is budget for development projects. The authors, however do not describe those systems separately, but instead they are making general conclusions. Another similar article from these two authors in collaboration with Daniel Oyon from the University of Lausanne, Switzerland named “Accounting and Control, Entrepreneurship and Innovation: Venturing into new Research Opportunities” (Davila, Foster, & Oyon, Accounting and Control, Entrepreneurship and Innocation: Venturing into Ner Research Opportunities, 2009)focuses on denying the traditional paradigm that identified accounting and control as nothing else but detrimental to both new concepts and recent empirical evidence.

The limited research on the topic does not match with the increasing importance of this topic - both the importance of startup companies for the present economical situation, and the importance of budget for startup companies. Today, it is widely recognized that start-ups play a very important role in the economy. They help rejuvenate the industrial structure giving nascent entrepreneurs a chance to bring their ideas to the market. In this respect, start-ups represent an important source of new products or series; they promote new ways of creating value or compensate for shortages of supply. As new entrants in the market, they also play a very important role as a challenging force to established firms, and for helping generate economic, social and technological progress. (Davila, Foster, & Oyon, Accounting and Control, Entrepreneurship and Innocation: Venturing into Ner Research Opportunities, 2009)

However, a large number of promising new ventures fail at the growth stage, precisely when managerial accounting becomes an important element. The management infrastructure which is required to grow an entrepreneurial company is rooted in the knowledge base of managerial accounting. Moreover, these new entrepreneurial clusters are grounded in networked communities, where information exchange is a key aspect of their functioning. The information-based nature of accounting puts this field of research at the core of our efforts to understand these communities. (Davila & Oyon, Introduction to the Special Section on Accounting, Innovation and Entrepreneurship, 2009) In the articles of Moores and Yuen (Moores & Yuan, 2001)where they map the type of the management accounting systems throughout the lifecycle of the firm and Granlund and Taipalxenmaki (Granlund & Taipaleenmaki, 2005)where they study management accounting system in eight new economy firms, the authors find that budgeting is the first management accounting system to be used. Additional accounting systems are present only in firms with a strong belief in their future success. (Davila & Foster, Management Control Systems in Early-Stage Startup Companies, 2007)

This study is motivated by a desire to understand how a startup founders without any experience in entrepreneurship and without any help from a venture capitals or a business angel can build the budget of his/her first startup company and use it throughout the year. In order to go deeper into the topic, I have decided to analyze four cases of startup companies in early stage which have not received any investment from venture capital companies or some kind of professional help and which have their inexperienced founder as CEO. The paper examines the whole process of creation and execution of the first budget of these four startups by taking two interviews from the founder of each of the four companies included in the research. In particular, the analysis of these cases will allow the examination of the process more deeply and build a framework as an output of the research which will give a final look of the first budgeting process of a startup.

This final framework is directly related to the objective of this paper. It is to give information to a person who has an idea about new business and is ready to take the risk, but who does not have a business angel around and cannot become part of business incubator where he can receive significant help. The help is expressed in a way he or she should build its first company budget and use it in a way that benefit can be gained for the company throughout the first budgeting period.
In chapter three of the article, I am going to introduce the problems that a startup founder may experience with constructing the first budget of his/her just started young company. Fourth chapter is about definitions and concepts about startup and budget. The main functions of the budget will pointed out with some supplementary information about each of them. At the end of chapter four the research question will be stated. In chapter five the research method will be explained – which type of research method is used and what the research design is. Internal and external validity of the paper will be also constructed in this part. In chapter six all cases will be introduced with some general information. Next chapter seven will be focused on budgeting in each of the cases followed by a table with the similarities and dissimilarities between them. In chapter eight I am going analyze the budget in different cases and finish with a final framework for budgeting process in startup. Discussion part will follow as chapter nine where a bit more will be said about the future research prospects. The thesis will end with a concluding chapter summarizing the main research findings.

Problem statement

When I took the decision to investigate that topic, I read a lot of theory about budgets and startups separately. The first question that came to my mind was "How these two things can exists in the same world?" There were a couple of things that made me think that it is impossible for a startup to plan and use budget.

Antonio Davila and George Foster together with Daniel Oyon in their article "Accounting and Control, Entrepreneurship and Innovation: Venturing into New Research Opportunities" make a good overview of the whole entrepreneurship and innovation process where they stress on the fact that every startup starts with an idea brought to the surface by creativity. (Davila, Foster, & Oyon, Accounting and Control, Entrepreneurship and Innocation: Venturing into Ner Research Opportunities, 2009)Over the years creative process such as identifying an idea that becomes the seed of a new company or a new product require a particular motivational environment. (Davila, Foster, & Oyon, Accounting and Control, Entrepreneurship and Innocation: Venturing into Ner Research Opportunities, 2009) Here comes the question – How do you stimulate the motivational environment and creative thinking in the startup employees with a financial plan that consists of figures that need to be reached for the next year or other period of time. Antonio Davila pays a lot of attention on this contrasting paradigm in one of his article which is about the management systems that need to encourage creativity and innovation. He is talking about the purpose of management accounting and control systems that differs across the “efficiency” and the “creation” paradigm. The “efficiency” paradigm was built on the premise that certain people plan and design (managers and engineers) while others execute (line people). On the other side we have the “creation” paradigm that is much more related to the entrepreneurship and creativity that is needed for startup companies in early stage. The “creation” paradigm itself contrasts with the “efficiency” one. The moving power and idea go all the way down to creative teams in fashion companies, to cross-functional teams that scout the world for new ideas in technology companies, or to business development teams in infrastructure management companies looking for new services for their customers. (Davila, 2010)Possible solution here may be the more participative bottom-up approach where the focus is moved from the managers to the line managers or employees – the people who are interacting more with the customers. The problem here may arise from the question – do you really want to trust your newly hired employees or managers to execute your idea? Are you sure that they have your idea in their heads?

The real challenge for startup founders comes when they need to plan the budget. New companies and innovations within existing organizations start with an idea. They both go through a growth process constantly challenged by unexpected variations until they crystallize into a new source of value creation (Davila, Foster, & Oyon, Accounting and Control, Entrepreneurship and Innocation: Venturing into Ner Research Opportunities, 2009)The founders of the startups assume about the variations, but the real difficulties comes when this variations had to be planned. This is something almost impossible to predict. The people responsible for constructing the budget in already existing company can take into consideration the analysis and study of historical information, current trends, and industry norms (Shim, 2012). It is obvious that when starting a new company you have no historical information and most of the startups go into completely new market niche where you cannot analyze the industry norms. These make the whole process around building a startup`s budget much more complicated than the budget of a company that already exists on the market.

The next step after creating your budget is to use it during your first financial period. I have already mentioned in the previous paragraph that for startup founders is difficult to predict all the variations during the first year – almost impossible. Then if the budget is not accurate and if a lot of assumptions are made while building it, how the plan is supposed to be reliable? This question was asked by Wallender in 1999 in his article “Budgeting – unnecessary evil” where he creates the fundamentals of Beyond Budgeting. There are thus many reasons why budgeting will not help you to foresee the breaks in the curves, something that would extremely valuable. Rather, the budget will actually rather make it more difficult to adjust to these breaks when they materialize. (Wallender, 1995)

These problems came to the table of the four startup companies in my case study research. All of them built the first company budget before running the business and met some obstacles while assembling the profit plan.

Here is what Vladimir, one of the two founders of the first company in my case study research, said about the first budget:

"We got the idea about a new business we could start on the market in our home city. It was something completely new and innovative and we knew that people would like it. That made us feel really enthusiastic about the idea. But the time came when we needed to see what is the profit potential of our company. Here the enthusiasm was not as big as it was for the idea. Since the product was new for the market, we did not know how many people would like it and how many sales are we going to make for the first year. This was really important because we wanted to invest some money in this project and we wanted to make sure that we will make some profit out of it."

With those words Vladimir absolutely strengthened the opinion that building the budgeting plan from a startup company is not an easy task. According to him the budget has changed with almost 60% compared to what it was before starting the company. He said that luck was involved in the whole process as well.

"We signed a good contract with a big company that made us stable on the market and increased our revenues. However, this was impossible to predict when the budget was created. It was a matter of luck"

The founder of the second company confirmed that the startup companies experienced difficulties in the process of planning the performance.

"The real pain was planning the revenue. We could not predict how many of our products we are going to sell. After the first year I looked at the initial budget we had – the actual revenue numbers were not more than 3% of what we planned"

Executing just three percent of what you plan can result from many factors, but one is clear – these factors were not part of initial startup plan. The same founder said that building a 100% accurate plan for a startup to follow is impossible.

"Building 100% accurate budget is almost impossible. There are too many things you cannot foresee while creating the budget, which comes up after the business is already started."

The founder of the third company was relying a lot on the innovative thinking of his employees.

"The budget is something that I could not share with my employees. I wanted from them to think outside of the box and act like that. Putting this number frame, what the budget is, would kill their enthusiasm."

The founder of the third company strengthened the point of conflict between the efficiency paradigm and the conflict paradigm pointed out in the first part of this section.

The founder of the last company in my case study experienced the difficulties with planning like all the other three. Changes in the budget in this company appeared almost immediately after running the business.

"Our business required travelling to some destinations where we had to reach agreement with third parties. I could not know how many times we need to travel in order to reach the agreement. For a big company that would not be a problem, but we had limited savings and I needed to allocate them in the best possible way."

"The environment forced us to change our strategy right after starting the business, which affected the budget as well. "

The problems experienced in all four companies in my case study were mainly connected to the budget planning. Often changes in the budget would complicate its implementation.

Concepts/definitions/research question

Startup

Every new company starts with an idea in the founders` head. Formation of the idea is important but equally important is the way that idea will be positioned on the market. According to Steve Blank, startup is an organization formed to search for a repeatable and scalable business model (Blank, 2010) which means that startup companies use business models to commercialize new ideas.

Therefore it is very important to define what a business model actually is, in order to fully understand when exactly the budget is coming on the table. Many authors have tried to give a definition of what business model is, so there are a lot of right ways of defining it. The most widely spread one is from Osterwalder and Pigneur`s basic definition according to which a business model describes the rationale of how an organization creates, delivers, and captures value.

Alexander Osterwalder and Yves Pigneur business model concept is the most famous one due to the fact that it is easy to understand but at the same time not oversimplified. The final output of their work is the business model description that uses nine building blocks which are showing how a company intends to make money. The nine building blocks cover the main areas of a business (Osterwalder, Pigneur, & Smith, 2010):

- Customer Segments – customers lie in the heart of every business because without them who are keen to buy your products and use your services your business will be dead. In order to attract clients and better satisfy their needs, a company has to group them into distinct segments common needs, common behaviors and other common attributes. If the company defines more than one the customer segments the organization must take a decision about which segments to serve and which segments to ignore. Once this decision is taken, a business model can be carefully designed around a strong understanding of specific customer needs.
- A value proposition – A Value Proposition creates value for the already defined Customer Segment through solving a problem or satisfies a need. Some of the values are: newness, performance, customization, getting the job done, design, price, brand/status, cost reduction, risk reduction, accessibility, convenience/usability
- Channels – the Channels Building Block describes how a company reaches its Customer Segments to deliver a Value Proposition
- Customer Relationship –This Building Block describes the types of relationships a company establishes with specific Customer Segments
- Revenue Streams – This Building Block represents the cash a company generates from each Customer Segment. There are several ways to generate Revenue Streams:
  - Asset sale – selling physical product`s ownership rights to a customer
  - Usage fee – the fee is paid for use of a particular service
  - Subscription fees – this fee is paid for usage continues access to a service
  - Lending/Renting/Leasing – the fee from this stream is acquired by giving someone exclusive right to use temporarily an asset own by you for a fixed period of time.

- Licensing – this stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees
- Brokerage fees –this stream derives from intermediation services performed on behalf of two or more parties
- Advertising – This stream results from fees for advertising a particular product, service, or brand

The revenue acquired from each stream depends highly on pricing mechanisms. The type of pricing mechanisms can make a big difference in terms of revenue generated. There are two main types of pricing mechanism: fixed and dynamic. The fixed prices are based on static variables like volume, customer segments or product feature. Very often prices are taken from a list of fixed prices for every individual product. In Dynamic Pricing, prices change is based on dynamic variables like negotiation between partners, inventory at the time of purchase, supply and demand or sometimes prices are result from competitive bidding.

- Key Resources – these are the most important assets that make a business model work.
- Key Activities –These are the activities like Key Resources that make the business model work. They can be - production, problem solving and platform/network.
- Key Partnership – This Building Block describes the network of contractors that make the business model work. Company creates alliances to optimize their business models, reduce risk, or acquire resources.
- Cost Structure –This final Building Block describes all costs incurred while operating under a particular business model. All business models try to minimize their costs, but some of them more than others. Cost structures have following characteristics: fixed costs, variable costs, economies of scale and economies of scope.

The input for the startup is the idea – the idea of something new. In order this idea to reach customers and start making profit, it needs a business model which has to be repeatable and scalable (Blank, 2010)Probably everybody knows what both those words mean, but what actually is the economic meaning of them? Scalable in economic context means that underlying business model offers the potential of economic growth within the company. A scalable business model is in general business model that is able to grow. But of course growing is not enough. There is a moment that everything comes to the money. Business model needs to generate you cash. A repeatable business model is the one that generate you cash-flow more than once. This cash generation needs to be measured and that is related to two of the nine business model blocks – revenue and cost structure.

Revenue minus the total cost define by the cost structure will give the profitability of startup. These will be expressed in the budget.

Budget

Budgeting is a topic which attracts a lot of researchers, so there are many books, articles and respectively many definitions related to that. As I already mentioned in the introduction I am going to look at the budget as part of the management accounting system. According to Certified Institute of Management Accountants (CIMA) a budget is a "quantitative expression of a plan for defined period of time. It may include planned sales volumes and revenues, resources quantities, costs and expenses, assets, liabilities and cash flow". Therefore, to call a plan – budget, it must comprise the quantities of economic resources to be allocated and used, it must be made for certain period of time, it has to be expressed in monetary terms, the managers needs to act in a way that shows intention to realize the plan. (Harper, 1995)

In order to understand the structure and purposes of the budget, we need to look beyond the definition of budgeting and go more intro its characteristics:

- By creating a plan of the company's expenditures and revenues, a budget estimates the profit potential of the business unit (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)
- The expenditures and revenues are stated in monetary terms, although the monetary amounts may be backed up by nonmonetary terms amounts like units sold or units produced (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)This back up is done for better understanding of the whole process from the people who are working on the floor. Non monetary units are much more related to the operational work of the people and that makes budget easy to be understand.
- A budget may span any period of time. It generally covers a period of one year (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)but this is not mandatory. It may be short-term (one year or less), intermediate (two to three years), or long-term (three years or more). (Shim, 2012)
- Although even if it is created by the budgetee it is a management commitment, managers agree to accept responsibility for attaining the budget objectives. (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)And it is always reviewed and approved by an authority higher than the budgetee.

- Once it is approved the budget can be changed only by specific conditions (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)
- This is done by periodically, actual financial performance being compared to the budget, and variances are analyzed and explained (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)

Since budgeting as a process is very complex, it comes as no surprise that budgets are trying to fulfill many functions in practice. The main ones according to CIMA are related to planning and control. Additional on the budget supports achievement of strategic plans by “translating the long-term plan into an annual work program”, “coordinating the various departments of the organization to ensure they are working in harmony” and “communicating plans to those who will be held accountable”. It may be used to “motivate staff by including performance against budget in the organization’s remuneration scheme”. The five blocks that the budget is staying on are planning, controlling, coordination, communication and performance evaluation. (Shim, 2012)

These five budget functions give a good overview of how the budget is used into the practice and they will help to investigate the budgeting process in startup so:

Planning

Every startup founder or manager of a company spends considerable time trying to figures out what the future would be and where does he want company to be in a certain period of time. This plan should go out of the managers` head and reach everybody in the company. That is why so called strategic plan is made as a formal statement of managers` plans. (Govindarajan & Anthony, 2001)The process of deciding on the strategic plans that the organization will undertake and on the approximate amount of resources that will be allocated to each program as part of the plan over the next several years is called strategic planning. (Govindarajan & Anthony, 2001)In addition, the strategic plan helps the organization to reach the goals and objectives in front of the company which are formulated in the strategy of the company. (Govindarajan & Anthony, 2001)

As in the strategic planning, budgeting also involves process of planning, the difference is in the time dimension. Strategic planning is focusing on long-term plans, whereas budgeting usually focuses on activities that are lasting not more than a year. This means that strategic planning precedes budgeting and provides the framework within which the annual budget is developed and in other words, a budget is one year-slice of the organization`s strategic plan (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)

Budget cannot be planned on 100 % accuracy. Some elements of forecasting are included in the plan, but forecasting is something completely different than planning and this should be defined. A budget is a management plan that includes some assumptions, but in general the managers should take positive steps to execute this plan and make actual events align with the initial plan, while forecasting is just a prediction of what most likely will happened. (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)The forecast part should be defined because the managers or people responsible for executing the budget cannot be held responsible for not meeting budget objectives based on forecasting. (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)As I stated in the beginning one of the main characteristics of the budget is that it is approved from the authorities higher than the people responsible for the budget preparation, so if a budget is changed during the year without being formally approved from the general managers, such a document would look more like forecast, not a true budget. (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)

Content of the budget has a specific way of arrangement. Budget starts with the income part, continues with the expenditures and at the end is stated the final result – profit or loss. This arrangement is taken from the income statement and also because the expenditures depend from the budget income. (Shim, 2012)

The planned revenue is equal to the planned sales unit multiplied by expected selling price. The revenue part is subject to the greatest uncertainty which comes from the sales unit. This degree of uncertainty differs among the different companies and different times but in general company managers have hard time defining the sales their company will obtain for the next budgeting period. (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)

Companies cost can be divided by direct and non direct costs. Non direct costs like administrative expenditures can be easily define because they are constant and do not vary a lot among companies with the same size. Direct costs are something that depends on the production and uncertainty that comes from sales unit is valid for direct costs as well.

A lot has been said about the first budgeting function in the text above so I will write a short conclusion on that. As a final sentence for the most important part of the budget creation which is also object of great uncertainty is that the budget planning involves determination of objectives for the next one year which are based on the general strategy of the company. The financial future of the company cannot be predicted on 100 % accuracy therefore assumptions are used when building the budget plan.

Controlling

After preparing the budget plan, the managers do not leave it in the drawer of the desk. The budget is used throughout the year as a controlling device for the company performance. This procedure should be implemented after the budgeting period starts so the success or the failure of the plan is immediately known. If the actual performance is below the planned one, than corrective actions can be taken to correct or minimize any undesirable effect. (Welsch & Glenn, 1988)Controlling functions of the budget should be ongoing process in order to ensure execution of the plan. If the comparison is done at the end of the year, the value for the company would not be significant because it is then too late to take any corrective actions. (Welsch & Glenn, 1988) When controlling company performance through the budget is considered as ongoing process, problem zones can be spotted and the corrective actions can be taken to fix the problem and increase the performance beyond the plan.

On key aspect of budget implementation and control is the principle of flexibility. Flexibility in budget application reached through control is essential, and it increases the probability of achieving or bettering the objectives as set forth in the budget. (Welsch & Glenn, 1988)

Coordination

In the big companies every responsibility center manager in the organization participates in the preparation of the budget. Then, the budget is assembled some inconsistencies between different responsibility centers may show up. (Shim, 2012)Inconsistencies may vary between something not so significant to things that are really important for the company like not aligning production with sales. In order to overcome these situations a company uses the budget in order to coordinate the different activities.

Coordination involves obtaining and organizing the needed personnel, equipment, and materials to carry out the business. A budget aids in the coordination between separate activity units to ensure that all parts of the company are in balance with each other and know how they fit in. It allows for a consensus of ideas, strategies and direction. (Shim, 2012)

Weber, Linder and Stefan make a good overview of coordination in their article "Budgeting, better budgeting, or beyond budgeting" (Weber, Linderl, & Stefan, 2005) They are mentioning four types of coordination which are identified from Kieser and Kubicek (Kieser & Kubicek, 1992):

- Coordination through face-to-face instructions by a supervisor – It can be easily seen from the name of this first type that this is direct type of coordination accomplished by a supervisor/manager giving individual orders to subordinates (Weber, Linderl, & Stefan, 2005)
- Mutual adjustment process processes between individuals, groups or organization (coordination through market forces) – this time the responsibility of ensuring proper coordination of activities is not on an individual person but in a group of people reach agreement about their personal wishes and activities. (Weber, Linderl, & Stefan, 2005)
- Coordination through programs and programming – here processes are defined in advance like a program and provided to the people responsible for carrying out the activities. (Weber, Linderl, & Stefan, 2005)
- Coordination through plans and planning is the last method for coordination – While in the previous type programs fix the an employee has to finish its job, plans are giving only the desired output that need to be attained from the employee. (Weber, Linderl, & Stefan, 2005) Here is where the budget as a devise for coordination falls. Very often researchers and practitioners refer to coordination through plans by using synonyms such as coordination through budgets or just budgeting (Weber, Linderl, & Stefan, 2005)

Communication

According to CIMA communication function of the budget is related to the "communicating the objectives that lay down in the budget plan to the people responsible for executing the plan".

Performance evaluation

The budget is a benchmark against which the actual performance can be judged, so it is an excellent starting point for employees' performance appraisal (Govindarajan & Anthony, Chapter 8: Budgeting preparation, 2001)As I have already explained in the controlling paragraph reviewing the budget should be an ongoing process which is also valid employees` performance. If there are apprised after the year ends, no corrective actions can be taken. Here it comes the role of the incentive system. Pay for performance is an artifact of the widely held belief that if you want to motivate people to pursue organization objectives then you to reward them based on the performance level they achieve.

(Kaplan & Atkinson, 1998)It is also called extrinsic rewards – rewards that one person gives to another (Kaplan & Atkinson, 1998)Another type of rewards is intrinsic – those that come from within the individual, such as satisfaction from a well done job or acting in a way that is consistent with inner values or beliefs. (Kaplan & Atkinson, 1998)The focus in this paragraph is on the extrinsic rewards. They are tied to organization`s outcomes and results (Kaplan & Atkinson, 1998)Rewards can be based on financial performance of the company which is the most traditional way of building the incentive system. Financial performance of the company can be seen from the budget and that means that if the actual profit of the company reaches the planned one, or if the company minimize the expenditures more the planned one, the people involved in that processes reach their goals and get the bonus which is set in advance.

Types of budget and budgeting approach

There are several different types of budget, depending on their purpose, and they fit together in a cascade. It is necessary to be familiar with these types to understand the whole picture and how these budgets interrelate (Shim, 2012):

- Master budget
- Operating and financial budgets
- Cash budgets
- Capital budgeting
- Static and Flexible budget

There are many other types of budgeting, but this is out of the research scope. What is really relevant and important for my investigation is another dividing which depends on the approach of creating the budget:

- Bottom-up known also as more participative approach of creating the budget. The bottom-up method begins at the operating (departmental) level based on the objectives of the segment. Each department prepares its own budget before it is integrated into the master budget. This method makes managers feel more motivated to achieve budgeted goals when they are involved in budget preparation. Such participation can give employees the feeling that "this is our budget", rather than the all-too-common felling that "this is the budget you imposed to us". Managers and employees with immediate operational responsibility for activities has better understanding of what results can be achieved and at what cost. Despite the involvement of lower-level managers, top management still must participate in the budget process to ensure that the combined goals of the various departments are consistent with the profitability objectives of the company. Two very big disadvantages for this method can be the time consuming process and the budgetary slack. Since the manager who creates the budget will be held accountable for actual results that deviate from the budget, the manager will have a natural tendency to submit a budget that is easy to attain (Shim, 2012).

- Top-down (imposed) – in the top-down approach, a central corporate staff, CEO or president determines the overall company objectives and strategies, enumerates resources constraints, considers competition, prepares the budget and makes allocations. Management considers the competitive and economic environment. Top management knows the company's objectives, strategies, resources, strengths and weaknesses. Departmental objectives follow from the action plans. (the book) This plan created from the top management or founder in the case of start-up company is then driven-down (correct word?) to the employees and they need to follow that plan. For already working company the top-down approach may be needed when business unit managers must be given specific performance objectives due to crisis situation and when close coordination is required between business units. (Shim, 2012)

Research question

Startups with venture capital funding, CEOs with more years of work experience, CEO strong beliefs about the benefits of planning are related to faster adoption of management accounting system like budgeting. (Davila & Foster, Management Accounting Systems Adoption Decisions: Evidence and Performance Implications from Early-Stage/Startup Companies, 2005)This means that startup with venture capital funding and CEO with experience will create and use the budget as management accounting system faster without any significant troubles like a company without those things.

This made me focus the objective of my paper to explain how a startup founder without entrepreneurial experience or venture capital funds, would build the budget of his/her startup and use it during the year.

Research method

In order to explore the actions taken from a startup company to build and use its first budget and the reason behind those actions, this study is performed as an explanatory multiple case study. When I was considering which would be the right research methodology for my investigation, I took into account three important conditions. (Yin, 2009)

- The type of research question posed
- The extent of control an investigator has over actual behavioral events
- The degree of focus on contemporary as opposed to historical events

The initial idea in my head was about investigating the first budget in a startup company. I was realizing that startups experience difficulties in creating the first budget and founders cannot use the existing practices from existing companies due to the lack of historical information. When I was formulating the research question I focus on “How startups create and use the budget?” and in order to formulate a good reasoning part I add the question “Why exactly in that way?” Questions “how” and “why” are more explanatory and likely to lead to the use of case studies, histories, and experiments as the preferred research method (Yin, 2009)Regarding the second conditions, I didn’t need to have control over the startups, what I needed is to investigate the actions taken in the startups regarding the first budget. For the last conditions – the focus on my study was events which are happening now or happened at near future. The case study is preferred in examining contemporary events, but when the relevant behaviors cannot be manipulated. (Yin, 2009) Based on this information I took a decision to perform my research as case study. A case study tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result (Yin, 2009)

Like all the other types of empirical researches case study has its own research design. The research design is described as a plan that guides the investigator in the process of collecting, analyzing, and interpreting observations. (Nachmias & Nachmias, 1992) It is a logical mode of proof that allows the researcher to draw inferences concerning casual relations among the variables under investigation.

For case studies, five components of a research design are especially important: (Yin, 2009)

- study`s questions
- propositions, if any
- unit(s) of analysis
- the logical linking the data to the propositions
- the criteria for interpreting the findings

The study question was stated in the previous part of in that way: “How a startup company build and use its budget and why in that way?”. No propositions were stated in this article, about the way startup creates and use its first budget. The case study has four units of analysis, the four startups in the research - Steemera, Full Fresh, Kiwi and Happy Eat.

The last two components linking data to propositions and criteria for interpreting the findings are especially important due the fact that these components foreshadow the data analysis steps in case study research. (Yin, 2009)As a method for linking the data to the prepositions I used explanation building. The explanation-building process, for explanatory case studies, has not been well documented in operational terms. However, the eventual explanation is like to be a result of a series of iterations (Yin, 2009)I started the explanation-building process with theoretical statement of which are the main budgeting functions in practice. Then I compared the finding from the first startup (Steemera) with the theoretical statement. After revising the initial theoretical statement, I compared the revisions with the findings from the second startup (Full Fresh) and revise it again. The whole process was repeated with the last two startups – Kiwi and Happy Eat. (Yin, 2009)In order to strengthen my conclusion I questioned company founders during the interview why they did not use some other methods for fulfilling the budgeting functions instead of budgeting.

Covering these preceding components of the research design will effectively force you to begin constructing a preliminary theory related to your topic of study. (Yin, 2009)The simple goal is to have a sufficient blueprint of your study. (Yin, 2009)Therefore I wrote definitions and characteristics on both topics “startup” and “budget”. I emphasized on five main budget functions and build a structure from six points which I used while conducting the interview and building the analysis:

- Creating the budget
- Planning
- Controlling
- Coordinating
- Communicating
- Performance evaluation

In order to establish a high quality of the study I am going to construct validity and establish internal and external validity and reliability. (Yin, 2009)First I am going to construct validity by establish a chain of evidence, making it possible to trace and recreate out statements. My main source of information is our two interviews with each of the founders of the four cases included in my research. Unfortunately I cannot construct validity by using multiple sources of evidence that is why I tried to ensure I am getting as much as information I can for the whole process of creating and using the budget. The transcripts of both interviews have been approved by the founders of each company, which also contributed to constructing validity.

Secondly I am reaching internal validity through my data analysis. This something that I spend a lot of time and put a lot of effort because it is mainly concern for explanatory cases studies like main. As already mentioned couple paragraphs above I am using explanation building and mainly focusing on the iterative nature of explanation building when trying to link the how and why of the four cases actions taken toward the first startup budget.

A lot of critiques are stated that single cases offer a poor basis for generalizing (Yin, 2009) , that is why I build multiple case study with four cases. In order construct external validity I took the four cases from different spheres – Steemera is dealing with car washing, Full Fresh with marketing though discount cards, Kiwi is in the sphere of restaurants and bars, while Happy Eat is also busy with marketing but through iPhone application. Choosing startups from different spheres makes possible generalizing beyond the immediate case studies.

In order to build reliability in way that a later investigator can follow the same procedure as me and conducted the same case study all over again and arrive at the same findings and conclusions I created case study protocol which can be found in the paper as Appendix A.

Natural case

With the research objective in mind, I had to find suitable startups which needed to fulfill a couple of requirements. First of all, I was looking for organizations that had recently gone through the process of starting a new business and creating the first startup budget. Startups which I looked for had to be innovative and had to establish a new market niche. The search for appropriate startups for the paper was focused on the ones that financed the first company`s activities with their own funds - without venture funding. Furthermore the search was focused on startups with founders that did not have any entrepreneurial experience so far. Universities are the places where young students or graduates can be found who already started their new businesses without a lot financial resources and without any experience in any sphere but whit great innovative ideas. To strengthen paper`s conclusion, multiple case study was used with startups which had different activities in different spheres of the business, so the conclusions can be made for a startups in general not for a startup in particular industry. Based on the requirements above, I found four cases that had recently gone through the process of creating the startup budget. First, I will introduce some general information for them – idea, founders, location, present situation and others

Steemera

Steemera is the first startup in my case study. The company was found more than a year ago in the summer of 2012 in Sofia, Bulgaria. The main activity was mobile car washing. The company used machines that were based on a new technology for cleaning cars which was not very popular in this part of Europe. The machine does not wash the cars with water, it uses just a steam and therefore it saves a lot of water and makes the whole process environmental friendly. This new technology allowed Steemera to had mobility, something that made the startup different from all the other competitor companies. In the standard carwashes the customer has to drive its car to one of them in order to make able the workers from the carwash to get the job done. This was not the case in Steemera – they had company cars with one of those machines in each car and were going to customers` addresses in order to wash their own cars. This service could save a lot of time for the clients which have recently become from crucial importance for the people in today`s fast driven world.

The company is founded by two partners – Vladimir Stamenov and Peter Ivanov. They got the idea from watching videos on YouTube about those kinds of machines. This happened two years ago and the future partners in Steemera discussed the idea. According to Vladimir they have always been talking about starting a new innovative business and always have been carrying that entrepreneurial spirit in them. After having this idea on mind they saw those machines on a web site in USA and decided to buy two of them. Shipping the machines to Bulgaria was the beginning of Steemera. Before ordering they spent around a week for creating the business model – they discussed the potential customers and the future strategy. According to Vladimir one of the most important tasks before starting the business was exactly creating the first budget.

The company was funded by the two founders, but not equally - Vladimir was the one who gave the significant part of the first investment. He spent five summers in Massachusetts, USA having two summer jobs where he could made some money on a side. According to him, his savings were enough to buy two machines and two second hand cars which were the first assets in Steemera. Both of the founders just graduate from University, Vladimir in Sofia, Peter in Denmark and they did not have any work or entrepreneurial experience. In their fist business project they relied on the good idea and the enthusiasm.

At the moment of doing my research, the company is at the end of its first budgeting period. I had two interviews with one of the founders of the company – Vladimir Stamenov. According to him the company had a relatively good first year – developed the new product, but still has a lot more to do. It was not as successful as they planed but they survived and Vladimir and his partner Peter Ivanov are looking forward to the second year of Steemera.

Full Fresh

Full Fresh is the second startup company included in the current case study research. The startup was founded at the end of year 2011 in Sofia, Bulgaria. The company`s business was built around selling discount cards similar to a plastic credit card, that entitles the holder to discounts on the prices of large variety of products or services in Sofia and around the Black sea coast in Bulgaria. Full Fresh tried to target many different customer segments therefore they included huge assortment of products and services – restaurants, bars, sport clubs, bookstores, theaters and etc. Discount card with such a great verity of did not exist in Sofia by that time and that made Full Fresh fulfills one of the requirements for the cases in my research – developing a new market niche with an innovative idea. The cards made good marketing for the Full Fresh partners included in the discount list. Having a discount for a certain restaurant or sports club will make the customers go there rather than a place where they do not have any discount. Full Fresh did not charge any of contractors for including them in the discount card. The startup earned from the annual fee of 15 BGN or 7.5 euro card holders was charged. Full Fresh established a distribution network with a couple of promoters walking around the city of Sofia, introducing the product to the people and offering them to buy one or more discount cards. On the top of these promoters there was a manager that had short experience in distributing discount cards theaters. She was familiar with the process of distribution and promotion.

The company was founded a bit more than a year ago and it has recently gone through the first budgeting process. The founders were three young graduates from the University of National and World Economy in Sofia, Bulgaria – Todor Gerovski, Alexander Stefanov and Viktoria Borisova. All of them graduated of Bachelor program with entrepreneurial background. Todor and Alexander did not have any work experience so far, and Viktoria was working like an accountant in small accounting company at the time Full Fresh was established. None of them had any real entrepreneurial experience, but since they studied in this field, starting a new business was topic of their conversations for many years. They had a lot of ideas, but only discussed couple of them with their university teachers and after receiving a few but important advises from university professors Todor, Alexander and Viktoria decided to focus on the idea of marketing with discount cards. Additional reason for executing that idea was the fact that Todor, the main initiator behind Full Fresh started his Masters of Marketing in the same university. Todor was the one who met me two times and gave me two interviews that I used for analyzing Full Fresh`s first budget.

The initial idea for Full Fresh was to create a software system for tracking the cards used in each of the partners. In that way, they were planning to track kind of products each of the customer was demanding and send him/her special offers for the products that he/she buys most often. This project required too much funds that Full Fresh could not afford.

“This would have cost a lot of money and we could not afford that at the beginning”

As every startup, Full Fresh also needed some financial resources to start their company – buying the cards, building the incentive systems for their first employees and meeting some other expenditure. The three young graduates did not have spare cash, therefore they relied mainly on the source called “friends and family” – no loans and no venture capitals were involved in starting Full Fresh.

Eight months after starting the company they realized situation is not going according to the plans. As reported by Todor, they hardly manage to reach 2-3 % of planned sales, so in the summer of 2012 the three founders decided to move their business to Bulgarian Black Sea coast where they wanted to offer discounts for different bars, discos and restaurant to the tourist coming from all over Europe. The three founders acquired new financial resources from the same source as before and brought their employees to Sunny Beach, the most popular resort on the coast. Unfortunately the things did not work out as well, so the company bankrupted after the summer. Todor explained the bankrupt in the following way:

“I think our main problem came from the fact that we could not find the employees who would be motivated to work for us. We changed many of them, only few were doing good job, and some were stealing from the company. Tried our best to motivate them, but just it did not work”

Kiwi

Kiwi is the oldest and most successful startup in my case study. On a first look Kiwi is a just restaurant and many people would say: “What is the innovation here?” However Kiwi developed original concept that has worked out for three years so far. This place is situated in Maastricht, one of the oldest cities in the Netherlands with old buildings and paved streets. Maastricht is a center of a region called Limburg, region famous with its traditions. Not many things different than traditional Limburgish style can be found here. Less than 50 years ago something new and different was started in Maastricht – Maastricht University where most of study programs are taught in English. In the last couple of years students have become a significant part of the city population – many of them come from Germany, Belgium, Spain, Italy, UK, Eastern Europe and the other parts of the Netherlands. The majority of these students were unemployed therefore they depended on their parents and did not want to spend a lot of money on a snack or on a drink – something that all these old traditional places in Maastricht could not offer them. Many of them bored out of all day sitting in the library found a very good environment in Kiwi. Kiwi was established as kind of a library, restaurant, bar and diner place – all in one. During the day very light chill out music and ultra-fast Wi-Fi made it perfect environment for students that wanted to study on a different place than the library. The students could have drinks, snack and a meal on better price compared to all the other food places in Maastricht. Around eight o'clock in the evening, the whole place was transforming from library to bar where you can have stronger drink with friends with load music and dance floor working till three o'clock in the morning. The place was positioned in traditional building with two floors close to the Maastricht University. Kiwi was a place where a student can spend the whole day and the business model was so successful in Maastricht that in a period of year the same place was opened in another student city in the Netherlands – Tilburg. Later it went over the border in Aachen, Germany and Leuven in Belgium – both of them old traditional cities with many students.

The main initiator behind the idea and its execution was Ryan van Bun who together with his wife and some other family members decided to start this project in the summer of 2009. He was working in the mines situated in Heerlen, a city 100 kilometers away from Maastricht. After 10 years in Heerlen he decided that it's time to start his own business. He was born and raised in Maastricht, but for last couple of years before starting Kiwi he was living in Heerlen. After coming back to Maastricht, he saw that the city was not that old traditional town he left ten years ago – international students were everywhere and English became second language in Maastricht. He decided to target these young people from all over Europe with his business, but he did not have any entrepreneurial experience so far. Ryan rented an old house with two floors close to the library and started executing the idea. He managed to save a lot of money through all these years working in the mines, but in the beginning he wanted to start with a loan from the bank. Unfortunately due to the ongoing crisis back then in Europe the bank did not gave him the loan, so he had to start everything on his own – without additional money and without venture capitals. In the beginning he started with three guys in the kitchen, four waitresses, one restaurant manager and him as a general manager but he was also working in the kitchen, behind the bar and the sometimes as waiter.

Creating its first budget was not as recent as first two companies but the focus on our interview was only that. They have gone through the process of creating and using startup company`s budget almost four years ago. By now Kiwi is already a key player on the market in Maastricht. According to the founder, the whole project was extremely successful. He is having a lot of customers on a daily basis, more than ten people in the kitchen working on shifts, two guys behind the bar and around ten people serving on the customers who also work on shifts. He hired a another general manager for Kiwi two weeks after the restaurant opened – her name was Nicky.

Happy Eat

The last startup in my case study is Happy Eat – the youngest from the four included in my case study research, founded by three founders in Maastricht, the Netherlands in June 2013. The company developed a new application for online reservations in restaurants for iPhone. The application work on the following principle: the owner of a restaurant offers free tables among the people who had the Happy Eat application on their iPhones and announces a discount for those who reserve a table through the application and come to the restaurant in the next one hour to take the reserved table. Like a business model it is similar to the second case in my paper – Full Fresh. It is also related to Marketing, but Happy Eat used more modern technology - application for smart phones. Happy eat focused only on people that go out to restaurant. The whole idea is innovative for southern part of the Netherlands – using you mobile phone to get discounts and book tables in restaurants.

The whole project started in the heads of three students in Maastricht University – Till Kahlen from Hannover, Germany and his other partners from France and the Netherlands were part of Entrepreneurial Bachelor program in Maastricht University, where they had an assignment to build their own startup company. The three founders did not know each other before, but when they worked on the assignment, they saw they have some common interests which motivated them to get the assignment out of the class room. After the end of the spring semester of 2013, they decided to execute this idea and start the new company at June 2013. All of them were master students without any working or business experience.

One of the main question that bothered them from the beginning was who exactly is going to build the application – all of them studied business, none of them had any IT skills. They had some savings from summer student jobs but this money was not enough to hire a professional IT specialist that can build the application. They did not want to include any venture capital company or to take any loans from the bank, therefore decided to use another solution – to include two IT students from

Maastricht University in their project and gave them share from Happy Eat. It did not take them a lot of time to find the right people and the whole process of creating the application started.

The founders were the one who tried to engage with restaurants in the beginning and include them in the list of the application. They signed contracts with couple of restaurants in Maastricht before the business started. After releasing the application on iStore one of the company founders who was a Dutch guy from Breda –another big city in southern Netherlands proposed to expand their activates in his home town, so they made a couple of trips to Breda in order to research the market and sign contracts with other restaurants. They also made some trips to Eindhoven, Utrecht and Amsterdam to research the market in these cities too. But in the end of June all of them were in the middle of writing their master thesis, so they could not expand their activities in other cities than Breda and Maastricht. That's why they hired a person who was busy with finding restaurants and convincing them to become part of their project.

Happy Eat has recently gone through the process of starting their business and building the first budget. At the moment of the interview they were still in the process of expanding the market and developing the company. They made a small transformation in their pricing policy and in the strategy which affected the budget as well, but this will be a topic of discussion in the later parts.

Budget

Steemera

According to Vladimir one of the most important tasks before starting the business was creating the first budget. Even though the process attracted a lot of attention from the founders of Steemera, they did not spend a lot of time on that.

"The core of business was not complicated and did not require a lot of time for calculating the future financial potential and that is why it took us around a week on creating the budget. We were so enthusiastic about the idea and wanted to start as soon as possible."

The first budget was covering a period of one year. Vladimir and Peter created the budget only by themselves without any professional services due to two reasons. First, as I already mentioned creating Steemera's first budget was not complicated task for the founders and second, they had Economic, Financial and Marketing educational background which helped them as well.

The biggest difficulty they have experienced in the beginning came from the fact the technology was new and innovative for the Bulgarian market, so they could not know what the demand would be and how the people in Sofia would react about the new technology. This made the task of setting the revenue part of the budget really complicated. Vladimir and his partner took the decision to base the revenues on a market research. Two very important questions they investigated during the research were how popular were carwashes in Sofia and how the new technology that they want to use was accepted in other countries.

"We knew some people that owned carwashes in Bulgaria and we had a short conversation with couple of them to understand some useful information like how many people on a daily basis are using their services, is there any seasonality in that kind of services and how much money a customer is willing to pay for car washing."

Since there was no other companies like them on the carwash market in Sofia they were forced to use some information from the static car washes. According to Vladimir it is always a good idea for a startup company that offers some innovative product, to have a look at the market of similar products. The second important part in their research was to contact and talk with companies doing absolutely the same business as Steemera in other countries. This kind of technology was very popular in USA and some other countries of Europe. Vladimir knew that he could not compare the market in New York or London to the one in Sofia, but found a lot of similarities between the Bulgarian and other markets in Eastern Europe. The technology was exciting in Poland (Warsaw and Krakow) and Slovenia (Ljubljana and some other cities around). This helped them a lot to make some estimations on how many sales they could expect in first year.

"The US vendor of the machines gave us the contacts of other companies that were using the same technology in other countries in Europe. So we had a conversation with them about the beginning of their business – how did the customers react and what happened in general at the establishment phase."

They could not predict on 100 % how the business will start and what the amount of sales would be, but tried to rely on the market research.

"Budget is something what you cannot plan, when you start a new company, but with the market research we tried to predict the plan for next one year as accurate as possible"

They calculated approximately the costs that go into the price. On a first place when defining the price was their intention to start at the lowest possible price which allows them to stay on the market and survive the first year.

"We wanted to launch a new product on the market, therefore we set the lowest possible price that will allows to survive the first year and at the same time make the people use our services"

This is how they built the revenue part which was more difficult to predict according to Vladimir. Planning the expenditures was not so big deal for Steemera's founders.

"It took us one day to make the expenditure part of the budget. We found good detergents online that we could use in the process of cleaning, we calculated how much fuel the cars are going to consume on average, how much water a machine will spend for cleaning a car, salaries, and we added 20% more that can meet unexpected expenditures. The actual expenditures that occur during the year were almost the same as the planned one."

This budget was finished right before taking the decision about buying the machines and starting the company. When creating this first profit plan Vladimir was expecting that the actual performance will not match with the plan they created. But based on the budget they made as a product from the market research, Steemera founders make the first very important decision thanks to the budget – they decided to start the company.

"If the first budget that we made showed us negative result in a long period time we would not start the business."

There is no way a company can start without budget according to Vladimir. He also said that budget is very useful in setting your objects – know the right direction you are going.

In case of Steemera, they got really lucky – one month after starting the company a contract was signed with Coca Cola and they had a cell in company`s garage which was built especially for cleaning Coca Cola`s cars. This helped their business a lot, but as Vladimir said this was something they could not plan in advance.

"I knew a guy working for Coca Cola, and we started talking about a contract between both the companies and about possibilities to provide them with our services on long term basis. The negotiations with Coca Cola gave positive result for us and we made had a space in company`s parking to clean their cars, but this was something we did not plan. It was a matter of luck"

From starting the new business till the end of the first year Vladimir and Peter changed the budget many times. They found ways how to save costs, for example using cheaper detergents.

"In our case we started a new company without any experience on the market – it is impossible to have a match between the planned performance in the budget and the actual performance. The

budget we had after a year was almost 100% different than what we created before starting Steemera"

According to Vladimir he used the budget more like a tool which helped him to foresee the financial situation in the near future. The budget changes did not stop them to compare the actual performance of the company with the planned one. That means they were using the budget as a controlling tool as well.

"We were changing the budget all the time during the first year in order to know where we go, but at the same time we compared our actual performance with the updated budget in order to know our current situation. Both were important for us"

Analyzing the reasons behind the budget distortion was from a crucial importance to the company performance according to Vladimir.

"Me and my partner were trying to evaluate whether the event which distort the performance depend on us. If did not, we changed the budget according to them. If yes, instead of changing the budget we tried to influence on the event and fix the actual performance"

One of the reasons a company creates a budget is to coordinate the activities between the different departments and communication the objectives to the employees. However this was not the case in Steemera. The startup had small size no departments that needed to be coordinated. The employees had a standard working hours from Monday to Friday. Vladimir and Peter were also involved into the working process. If sometimes more employees were needed the founders were participating into the operational work of cleaning cars or buying resources. Vladimir was all the time around the company in the beginning and he used direct method of communication with the employees.

"Coordination is something that really depends on the business. We didn't need to spend a lot of time on that due to two reasons – we had small organization and at the same time not very complicated business – buy detergents, fill fuel in the cars, teach the worker how to work with the machines – there is nothing complicated in that."

According to Vladimir Steemera had a short term strategy - surviving the first year on the market and attracting new customers. The long term strategy of the young company was to go out of the Bulgarian market. When they bought the machines from the US vendor, he gave them the information that there are no other partners or dealers for Balkan area. This gave to Vladimir and Peter a really good hint that their long term strategy could be becoming a reseller for other Balkan countries like Greece, Romania, Serbia and Macedonia. They had a braver plan to create a franchise for other people who want to buy a machine and work under Steemera brand in Bulgaria or outside of the country. However this was not taken into consideration when they created the first budget and they did not spend a lot of time thinking about the long term strategy. Vladimir and Peter were really focused on getting experience and knowledge about the market and product and surviving the first difficult for all start-up companies year.

“When Steemera was found by us we were focused on surviving the first year because we have read a lot of researches saying how 9 out of 10 startup companies are failing during the first year. We discuss the long term strategy but did not take any actions on it. We did not have any financial resources to invest in marketing over the Balkans or creating a franchise brand. Therefore we took into consideration only the short term strategy into the first budget – lower prices. We needed lower prices in order to make customers using our products. Bulgaria is one of the poorest countries in European Union, people here would not buy really good product if it is expensive. But really good product on a good price would be something that can survive on the market in Sofia. ”

Steemera had three employees hired when company started activities. Employees` salaries were percentage of the revenue, so the money they got was tightly related to the revenue part in the budget. At the same time the employees did not have any targets or goals to reach.

“If they were doing good job, the customers would be happy and willing to come back to us – all that means higher revenue and more money for the employees. Doing a good job was their target.”

“We operate in kind of business that I could not put quantitative target to my employees and tight it to the incentive system. The sales depended on the way they do their job – but this is very subjective. They also depended on the way my partner and I promoted our company”

All three of them had previous experience in car washing, so Vladimir asked them for advise on the technical part – way of cleaning the cars, using the right detergent, but nothing more than that – they did not participate in the first budget and he did not ask them for opinion about the sales or something related to that. The budget approach was top-down.

Full Fresh

Todor and his partners spent approximately two months on researching the market and setting the budget. According to Todor they did not spend the whole period on building the profit plan, but it was a part of the process of creating the business model and everything in total took them around two and half months. The first budget plan was for one year in advance.

Full Fresh did not use any help from outside the company in order to build the budget. All of them had education in economics and this helped them to construct the first budget.

When started planning the near future they spend significant time on researching the market. The good knowledge of the market helped them to plan the revenue in a correct way. Todor said that he could not imagine building the Full Fresh`s budget without doing marketing research. For the research they mainly relied on the information taken from other companies that were offering discount cards. As I reported in the beginning Full Fresh were innovators on the market because Full Fresh discount cards offered discounts for diversified products and services, but on the market existed other products like this offering discounts for specific services, for example only for a certain restaurant or hotel chain. By that time, according to Todor, discount cards for theaters were very popular and contacted one of the companies offering them with the help of Rositsa the manager of the promoters who used to work for such company and she could provide Todor and his partners with some sales figures. Todor has had an idea of walking around the streets of Sofia and interviewing some random people about the Full Fresh cards but he did not receive any support from his partners on that idea so he did not do it.

After having some approximate figure for sales they defined the price for single card at 15 BGN which is around 7.5 euro. This was the minimal price they could set in order to cover all the costs and make a small profit out of the business.

"We did not have a lot of problems defining the costs – we knew how much salary we will give to the employees, we investigate how much it costs the creation of one plastic card and of course we added a lot of reserves just in case something goes wrong. After we finished our first year, I would say the actual expenditure part almost matched with the planned. The real pain was creating the revenue. After the first year, I looked at the initial budget we had – the actual revenue numbers were not more than 3% of what we planned."

Right after opening the new company they started changing the budget. According to Todor the budget after one year was around 60 percent different than what it was planned. It was difficult for them to stick the company`s performance to the budget. Full Fresh were adjusting the profit plan all the time based on company`s actual performance in order to know what is the company`s near financial future.

As all three of them graduated entrepreneurship in their Bachelor they learned one lesson for start-up companies – "You need to have a working product, before the money is over", so they were really focused on the product, and the budget was something that they were changing all the time in order to know where are they going – is it the right direction and where are they going to be in a few months from now.

"It was not a matter of controlling the organization with the budget, it helped us more like showing the future. We were analyzing it all the time, changed it many times in order to know where you are going. We knew we change the budget because something is not as it is supposed to be, but could not fix it."

During the first budgeting year, while Todor and his partners were analyzing the budget, they saw that the problem is in the sales part. The actual sales were much lower than the planned ones. As I already mentioned Todor knew that the company needs employees who are motivated to work and really dedicated to Full Fresh – with such employees, their company could have increased the sales. Todor, Viktoria and Alexander were trying the fix that by looking for new people all the time, but it did not work out. They just could not make a good team of promoters which can make the people buying their cards. So even if Todor was saying that the Full Fresh first budget was used as source of information on how the company is going to perform in the near future, they were actually comparing the actual performance to the planned one, spotted the problem and knew why they could not execute the planned numbers, but corrective actions did not work.

Todor said a couple of words about two of the main function of a budget in practice – communication and coordination. They did not use the first budget for these two reasons because of the company size.

"We communicated the company objectives directly to our manager Rositsa – sharing our ideas with her and from time to time we talked with the employees as well. We did not share any information about the budget with them – neither with employees, nor with Rositsa. We used top-down approach for creating the first profit plan"

Full Fresh Club had three employees selling the cards around Sofia and one manager responsible for them - Rositza. She had previous experience in selling discount cards for theaters. Small part of her salary did not depend on the company performance and she had bonuses which depended on the cards sold by the employees. Rositza had important role into the organization – she joined the meeting when the strategy was formulated and helped a lot because she was the only one with actual experience in direct marketing – selling discount cards to people.

The other employee's salary was based only on their actual performance. The more cards they sell the more money they get. If they sell 15 cards per day, they get additional bonus.

When setting the targets of 15 cards, Todor took into consideration the profit that company needs to make in order to survive the first year and to have time to make the product recognizable on the market.

"We tried to make targets for our employees fair enough. They were not so difficult to reach – the minimum we needed to sell in order to go on profit. We knew the money is not only thing that can inspire our employees, so we also tried to make good work environment that could motivate them. We have always tried to be nice to them, tried to build a good team, be very friendly, going out with them once in every two weeks to a restaurant or a club. They were leaving on every two months; we had only couple of good workers. We could not sell the amount of cards we needed in order to cover our expenditures. The money we invested in the company was over and one day we just decided that it was time to give up… we bankrupted."

That was how Todor explained the whole situation around the problem with the employees and the bankrupt of Full Fresh. The possible problem in motivating the employees might come from the incentive system. Apart from Rositza all the others did not have any flat salary. They were getting money that depend the number of the sold cards. Rositza was getting flat salary and bonuses as well because she was joining some managerial meeting between Todor and his partners, but the regular employees were busy just with selling the cards. Even though did not have any flat salary Todor explained that employees could make some really good money if they were reaching the target.

"We gave them percentage of every card they sold. And additionally they get bonus if they sell 15 cards per day. We calculated that if they sell around 15 cards – they will get money more than the average salary in Bulgaria."

Kiwi

Ryan, the founder of Kiwi, spent around two and a half months on researching the market; getting in contact with the potential customers, and creating the first budget. Creating the budget was part of the whole process of getting ready to start the company. The period covered by the first budget was one year – he decided to use the standard time dimension.

Ryan did not use any help from financial accountant or anyone else with financial professional background.

"I am the one who knows my business, not the accountant or the banker. The idea of Kiwi came into my head and I did the market research, so I am the one who will make the budget plan as accurate as possible."

Kiwi like the other two startup companies in the paper used the results from the market research to build the revenue part of the first budget. Ryan, with the help of his wife, did a really good market research for around two months and he based the budget numbers on that it. The most important aspect according to him was to focus on customers.

"Make your plan around the audience. My plan is not the customers plan. Don't create the products and then sell, first see what customers want and create your product. This is what helped me personally to create Kiwi first budget"

So after having the idea about the new innovative student place in the heart of the old Maastricht he did a really comprehensive research on customers via interview and surveys. He really wanted to make sure that the new potential clients will like his idea.

The good thing about his business is the immense amount of information that can be found online or from other easy accessible sources - information on the cost model, margin sell and others related to food and drinks places. What he had to to plan is the sales that Kiwi needed to make in order to return his investment back and establish the company on the market. Ryan focused on interviewing the potential customers and preparing a lot of surveys that were sent to many of the students in Maastricht University. In the survey there were questions connected to his idea about Kiwi – the answers on these questions helped him to understand if the students would like the new place. After he received a lot of positive responses he calculated percentage of these positive responses out of the total number. These percentage was used to calculate the how many of the Maastricht University students were willing to go to Kiwi. One of the questions in the surveys and the interviews with the potential customers was "How often would you visit Kiwi?" Based on these numbers he managed to make an approximate number of sales. After the survey he contacted with some of the students from both groups – the one who reacted positive on his idea and the one who reacted negative. This helped him to know what the customer would like and how much money they are willing to spend in Kiwi. He calculated the revenue part of his budget based on this solid market research he did around the customers.

Kiwi went fine – everything started more than well and the startup performed better than the plan which was good sign for the research Ryan did.

"We based part of our planning on market research and part on guessing, because I cannot predict the future on 100 %. You can inform yourself as much as possible and as accurate as possible but you cannot be hundred percent sure. You really don't know how the people are going to react on your ideas. Yes, during the surveys they said, the idea sounds good, but you never know what may happen after that. But after all we did pretty good job and Kiwi performed better than the plan. I think the research we did helped us to foresee that, but a lot of luck was involved as well."

After Ryan created the budget, it came time to use it during the first budgeting year. Once Ryan had the budgeting plan for next year, he wanted to make sure that the actual numbers of his business are more than the planned one.

"Honestly, we got on a roller coaster – plans and everything they vanished on the table. We just had to make sure that we got the quality and the product on a very good level. We wanted to attract more and more customers so we were totally focused on making sure that product is good and continues. The budget plan – we did not even care about it at that moment because we were out of concerns. I was checking the budget and I knew we were performing better than what it was planned, so that was giving me a good sign about the company. We put on the table things that are really important like the product and the customer. You can see the budget afterwards. If you are busy you don't need to look after the budget because you are busy anyway."

According to Ryan, important for him in the beginning was to stay always on the top of everything. That is the principle he tried to follow in running Kiwi. Staying always on the top of what is happening gave him information for every aspect of the business. This helped him to spot if something is going wrong with Kiwi.

"If I hear that something is not going well, I need to make sure that I react in a week, but not two months later. Information up to date is very important."

He followed the same principle in budgeting:

"I was checking if the actual numbers were matching with the planned ones on a weekly basis. I did not spend any time on analyzing the budget because we were totally focused on the product and customers. But knowing that we are doing better than the budget made me confident for the future of the company"

When building the first budget he did not into consideration coordination the activities and communication the targets among the employees with the budget. He preferred the direct way of doing the things – face to face.

Kiwi is a place that highly depends on its staff – waitress, people in the kitchen and managers. When the restaurant started working three years ago, the smiled staff, well prepared food by the people in the kitchen and the quality of serving in general was the first and most important that attracted new customers. Ryan had one general manager – Nicky who was responsible for everything. She is the one getting a bonus when the restaurant reaches the weekly target that is tightly related to the revenue. The target is 90 euro revenue for the restaurant per 1 working hour. He set the target on 90 euro based on Kiwi`s strategy – they wanted to sell their service on the lowest possible price, so setting 90 euro per hour would guarantee covering the expenses and minimal profit for the company. According to Ryan the target was doable but Nicky had to to stretch a bit in order to reach the goal. Employees did not have any targets – Nicky is the one who looked after their performance – 'She is able to do that by staying on top of the things all the time' said Ryan about the way Nicky managed the rest of the employees.

Ryan also relied on the social control in Kiwi.

"If one of the employees didn't do good job the others would not like him or her – so it's like social control. It`s hard to get that, it needs some time, but it is really effective and I tried to implement that from the day Kiwi opened. If the people in the kitchen made a mistake, waiters were not happy, if the waiters made a mistake, the people from the kitchen were not happy."

According to Ryan money is important motivator, but when starting a new company there is something more important and that is to have people that understand what you are trying to achieve and they are willing to go with you for that. According to Ryan nonmonetary extrinsic way of motivating the people is much more important that the monetary intrinsic. In that sense Ryan said that young people are much easier to be motivated with extrinsic methods.

"I prefer to work with young people because they are the one that gets your idea. Experienced one already know a way of doing the things and most of the time that is not your way, if you want to try something different than your competitors. For finding good you people that suits your company you really need good recruitment process – 1 out of 10 people will have the character that you are looking for. This is what I did when started Kiwi –relied only on young people. They got the idea from the beginning and they have a part from the success of Kiwi. "

Happy Eat

Creating the budget took Till no more than half a day according to him, but according to him behind the budget there was a huge market research on which Till spent month and half. He created one big excel file that contained all the data he acquired during the market research. According to him there was no other way to forecast a young company's figures in the budget without a good market research of your potential customers. He spent a lot of time online – reading different articles, browsing in all kind of websites that could help him, checking a lot of statistical information and at the same time doing a lot of surveys interviews with the potential customers. The Happy Eat application is for restaurants in Maastricht where all of the founders were students and Breda because one of the founders was born and raised in there. First of all, they took the number of all the people who lived in both cities and the area around them. Then they calculated how many of them were older than 18, how many had an iPhone and internet on it. The research included calculation on how often these people go out to a restaurant – for example that number for Maastricht was 38 times per year and for Breda was 42 times per year. After defining the target group they created a survey and spread it out online via facebook and other social networks and at the same time they did a lot of interviews with people from the potential target group. The whole market research was very time consuming, but at the same time everything was very cheap which was important for the startup since they didn't have a lot of financial resources. Till said that they tried to make the plan as accurate as possible.

"The whole planning process was based on really good research. Of course, we did some assumptions, but we knew that if we do good market research, we decrease our dependence from other variables"

Till built the expenditure part of Kiwi`s budget on three cost blocks – acquisition, marketing and administration. Acquisition was related to the process of acquiring certain amount of restaurants for the first year. Some of them were in Maastricht where the costs of acquisition were 0 euro. But for Breda and some other cities, where they planned to extend their activities, Till calculated costs of travelling, accommodation etc. Administrative costs were somehow clear for them – some standard procedures. They knew what costs such as registering at the chamber of commerce, notary costs etc could be. They also added 20% unusual expenditures that cannot be predicted. The marketing part was the biggest in the beginning – promoting their new application via Google +, banners on websites and etc.

According to Till, the budget was a must in Happy Eat. Based on it, he and his partners made a decision to start their business.

"After creating the budget we checked what the potential result would be in the next year. In the first three months we planned loss, but more important was that after a year our company would be profitable based on our plan. If the budget was showing that our costs were more than the revenue during the whole first year or we did not have enough money to execute the whole plan I would suggest to my partners that starting Happy Eat is not a profitable project – said in a more simple way – I would not start the business"

It could be concluded that Happy Eat started because of the positive result that the first year budget plan showed. According to Till Happy Eat`s first budget was a clear roadmap of what and when they wanted to achieve as a certain milestones.

The budget Till created before starting Happy Eat, changed a lot. This happened due to a modification in their strategy. Their initial pricing plan was to charge the restaurants 20 euro as a monthly fee and 1 euro per customer who reserve a table via the application. However, the restaurant did not like this financial offer, so Till and his partners removed the monthly fee and increased the charge per customer to 1.5 euro which affected the revenue structure. They also changed the expenditure structure:

"We spent the most of our money on Marketing – merchandising, giving flyers to people, a lot of marketing in the social network, but month and a half after we started the business we realized that we had only five restaurants in Maastricht and four in Breda, and there was no point to focus on making the application popular when the customers could only use it for a couple of restaurants. Therefore we decided to spend more money on attracting restaurants than marketing. The new plan was to hire someone who will walk around and engage restaurants with us. After having enough restaurants then we might go to a venture capital company and say: look we have a lot restaurants, give us money for marketing and we will attract customers"

This change in the strategy made them transform the budget as well. According to Till, they were analyzing the budget all the time, but tried to reduce changing it only when significant event appears.

"When something happened we always tried to sit on the table and talk about it, because analysing the budget was crucial part of using it. When we changed our strategy in the pricing policy, we knew this is going to affect the budget and we transformed it, but in general we tried to focus on the reasons why the actual performance was lower the than the planned and fix them if we can.

Like in the three other startups in the research coordination and communication function in Happy Eat was not so well expressed since company had small sizes. They had two main activities - acquiring new restaurants and promoting the application between the potential customers and there was no need for coordination between them. They needed to engage with as many as restaurants as possible and needed to make the application as famous as possible.

The same is valid for communication - they hired a person who walked around Maastricht and Breda and the objectives of the company were explained to him via direct way of communication. One of the company founders just talked regularly on the phone with him and sometimes arranged a meeting to talk about the working process and the results

According to Till creating the profit plan was his task, and being participant in the market research and in the operational activities of the company helped him in creating and analyzing the budget. For Happy Eat the only suitable approach for making it was top-down. First of all, they did not have any employees in the beginning and even after hiring one he was not so familiar with the company`s activates in order to join the budgeting process.

"We were the ones who did the market research, marketing campaign and engaging restaurants. We were walking around Maastricht, Breda and other Dutch cities interviewing the potential customers and convincing restaurant to join our project. So that is why when we hired the person who was responsible for finding restaurants he did not participate into the analyzing budget. We are using completely top-down approach, because I cannot expect from someone who I just hired to know my business better than me. He gets the salary based on the restaurants he engaged and additional bonus from every customer"

The incentive system of Happy Eat was very simple - the only employee was getting paid based on his results. What Till thinks that motivated him, is also the flexibility of the job – he can work when he was available, he reported the number of restaurants he engaged at the end of the month to Till and his partners.

Analysis

	Steemera	Full Fresh	Kiwi	Happy Eat
Time for creating the budget	1 week (part of setting the business plan and doing the market research)	2 months (part of setting the business plan and doing the market research)	2 months (part of setting the business plan and doing the market research)	Budget took him half a day, but the market research that the budget was based on took Till two and a half months.
Professional help	No	No	No	No
Time dimension	1 year	1 year	1 year	1 year
Planning	Base the budget in a market research. For building the revenue part they had conversations with car washes in Sofia and companies that	Based the budget on market research. The revenue part was based on some figures from companies with the similar business in	They tried to create the plan around customers. A lot of surveys and talks with the potential customer groups were included in the	Build the profit plan around a comprehensive market research that define how big is the target group and what part of it would

	had the same technology in other Eastern European countries	Sofia	market research they used for building the budget.	use Happy Eat`s product
Controlling	The budget was transformed compared to what it was in the beginning. The founders used the updated budget to foresee the financial future of the company but at the same time they were taking corrective actions if the actual performance was below the planned.	They were changing the budget all the time. According to Todor it was not a matter controlling the organization with the budget. It is more about showing the future. They were analyzing the budget all the time and trying to see weaker sights of their company.	The founder was checking the budget all the time without analyzing it. Did not change the budget, since the actual performance was better than the planned one all the time.	They also analyze the budget very often. Did not stick to the plan, tried to be flexible.
Communication	Not a budgeting function in Steemera	Not a budgeting function in Full Fresh	Not a budgeting function in Kiwi	Not a budgeting function in Happy Eat
Coordination	Not a budgeting function in Steemera	Not a budgeting function in Full Fresh	Not a budgeting function in Kwi	Not a budgeting function in Happy Eat
Performance evaluation	Subjective evaluation. No targets.	Incentive system depends on the revenue. Targets are not so high. They allow the company to survive.	Incentive depends on revenue per hour.	Incentive depends directly on the work done by the employee

Table.1. Table of similarities and dissimilarities between the four startups

Process of creation

For already existing on the market companies the process of developing a budget is taking place at the end of each year and it represents a plan for the next one. Certain employees in the company are entirely engaged with creating and spreading the budget through the organization. In the four startup companies investigated in my research the process of budget setting is a part of the whole process of creating the business model and making the market research. This process took Vladimir between a week and ten days which is a significantly shorter period than it was for the other companies in my research. According to Vladimir the core of his business was not complicated and therefore creating the business model and the budget is not as time consuming as it would be for a different company. Contacting with owners of existing carwashes in Sofia and owners of companies with the same as Steemera's business were the most time consuming processes. Full Fresh spent as much as Kiwi – around two months on the whole process of creating the business model and building the budget. A difference between the two companies' approaches is that Kiwi undertook a comprehensive research with a significant number of surveys and interviews among potential customers while Full Fresh just obtained certain numbers from competitor companies that offered a product comparable to the one Full Fresh was planning to impose on the market. The whole process protracted for Full Fresh due to their initial idea to create software that can track the cards in each of the partners in their discount list. After realizing that the financial recourses will not be enough to cover such an investment and that at bottom line, the initiative would not be profitable, they took the decision to take the software out of the strategy and created a completely new plan. According to Till, the budget of Happy Eat was created for half a day, but the numbers were based on a market research that took them around a month and half. Happy Eat was closer to Kiwi in their methodology of creating their first budget. The creation the budget in startup companies is part of the process of creating the whole business plan and researching the market. As it could be seen from the examples investigated in the current paper, the time necessary for a startup to build a budget highly depends on the type of the business and also how detailed the market research is.

Vladimir and his partner were quite confident in their knowledge on how to build the first budget due to the fact that both of them did their Bachelors in the field of Economy. They did not use any help from a person with professional experience in budgeting, rather than that, all they relied on was their education. The same occurrence is observed in Full Fresh – Todor said in the interview that creating the budget was not difficult and did not require any professional help from controlling expert or accountant. Ryan from Kiwi was quite clear that nobody can create Kiwi`s budget better than him, because he is the one who knows the financial aspects of his company. Till from Happy Eat attended a course in Entrepreneur Finance where he was taught how to create a budget. His opinion is that even if he did not take that course in the university, he would not use any help since this would incur additional costs to Happy Eat, and in general, startups do not have spare cash at establishment phase. Startup company founders rely on their own capabilities for budget setting because making the financial plan for next year does not require in depth professional knowledge. In that way companies save money as well.

The standard budget period that a budget usually covers is one year. This is what Vladimir used for the first budget of the company due to the fact that in one year budget he could take into consideration the seasonality of his business, for example more cars are cleaned in the summer. This was a hint he got from the conversations he had with the owners of carwashes in Sofia. Full Fresh`s first budget was also set for one year.

"We created our first budget for one year because this was the most common opinion about budget time duration. It was not so important for what period the budget would be therefore I decided to make it for a year instead of wasting time considering the budget duration."

Kiwi created their budget for a year due to the same reason as Steemera.

"Our main target group was students so we wanted to take into consideration the student holidays in our budget".

Happy Eat used a method that was similar to the one Full Fresh used. Till just created the budget for a year without spending too much thinking about that.

In general a startup creates a budget for a year. In certain cases the reason for such decision could be seasonality. And sometimes the founders just take the most common opinion about the budget.

Planning

Planning involves the determination of objectives, evaluation of alternative courses of action, and authorization to select programs. Budgets are blueprints for projected action and a formalization of the planning process. (Shim, 2012)

Planning and predicting the performance in a startup company causes a lot of difficulties due to the fact that many events that can happen in the first budgeting year cannot be predicted during the budget setting phase. The process is not an easy task in an existing company as well – the people responsible for the budget in those companies use a lot of assumptions when building it and historical information from the previous year is an essential part of creating the new budget. The availability of such historical information is what makes the major difference between creating the profit plan in new a startup company and in an already existing one. In the paper at hand we will investigate more closely the planning process in startup companies by interviewing the founders on their understanding of the monetary plan setting process

Vladimir, one of the two founders of Steemera said that when starting a new company nobody could be sure that the actual performance during the year will be close to the budgeted. However, with the market research they tried to predict as accurate as possible the trend for the next year. Vladimir did the market research by talking to companies in Sofia that offer services similar to the one that Steemera offers and companies that used the same technology as Steemera but operated on other markets. According to Vladimir and his partner there are two things you need to know in order to make a good market research, which is vital for creating the first budget – your market and your technology. Only by using the results of a well structured and well performed market research you can make reliable predictions necessary for the budget setting process.

Todor from Full Fresh based the budget numbers on a market research as well but he used a narrower compared to Steemera approach for creating the research. He did not have any connections with a company that performs the same business on any other market so he relied only on companies that operated in Sofia and had similar to Full Fresh`s business.

Both companies – Steemera and Full Fresh did not have a lot of troubles creating the expenditures part. I already mentioned Todor’s words that predicting the cost was easy and after the first year the actual expenditures were matching almost on 100 percent with the predicted ones as it was the case in Steemera. The real difficulty according to Todor was predicting the revenue and especially the sales. Full Fresh`s actual sales were not more than 3 % than the planned one which means that Planning the sales around the companies that have closer to your business was not a good method based on Full Fresh experience and the final result they had. Steemera performed better than Full Fresh but Vladimir admits that this was a matter of the luck that they had signing the contract with Coca Cola. Another reason why Steemera performed better than Full Fresh was that Vladimir had the chance to talk with companies that are having the same business as Steemera. This helped him to assess the profit potential of the technology and construct the revenue part of the budget

Kiwi`s founder Ryan confirmed that practice from Steemera and Full Fresh that startup budget should be build around a well performed market research. However he went deeper into investigating the new market and the potential customers` desires. Couple of times on the interview he said that market research should be constructed around the customers. “My plan is not customers plan” was a sentence that made it clear that customers were taking general role in the Steemera`s monetary plan for the next year.

Kiwi actual performance was much higher than the planned one which would give a positive sign for the approach Ryan for creating the market research and building the budget. Ryan also did some talks with people that had closer to his business, but what made his plan better was the fact that he defined a certain target group with focus the research on it. A lot surveys though the students in Maastricht University, meeting them on real and asking them direct questions about his restaurant helped him to define what the actual demand for his product would be. Knowing the actual demand for his product made it much easier for him to plan sales and respectively the revenue part of the budget. Planning the part with expenditures was not a problem for him. Contacting with the potential customers was what made the research performed by Kiwi better than the one in Steemera and Full Fresh. This better research was the reason Ryan built more accurate budget than the one by Vladimir and Todor.

Till and his startup company used almost the same approach as Kiwi. As I have mentioned earlier what Till did is a very big excel file calculating how many people are living in Maastricht and Breda. He excluded the old people and the one under 18. From the rest he calculate how many of them are going out for a dinner. How many of these people between 18 and approximately 65 years living in Maastricht and Breda are having iPhone and internet on it in order to download the application. So what he did is very comprehensive research and the result was the actual number of people who would download the Happy Eat application from iStore and reserve a free table in both of the cities with it. According to him substantial part of his research was the surveys the company did around the city and the interviews with the potential customers. This helped him to come up with some percentage of how many people from his potential customer group, would use the application and to come up with some number for the revenue part of his budget. At the moment of interview the revenue part was not above the planned one, but according to Till it is closer. The planning approach Happy Eat used was the same as Kiwi`s. The results confirmed this is the best methodology for planning a startup can use.

A startup has to base its budget on a solid market research as all the companies in my case study did. This is the big difference between the existing companies and the new founded one – and the startup method is forced by the lack of the lack of historical information. Here it comes more important question – how should you make your research in order to make more accurate plan. Todor and Vladimir used information from companies that offered products closed to theirs but not the same. So they could not predict the actual customer reaction to their products. Even though Steemera performed not so far from the plan, this was a matter of luck they had to sign a contract with another big company for their using services. Something that Kiwi and Happy Eat did was defining the right customer group they want to target and doing many surveys and interviews with it. They created the whole budgeting plan around the potential customers. As a statement after this first part of analysis on planning the budget, I would conclude two things. If you are a founder of startup company, base your budget on a market research and base the market research on the customers, which automatically means base your budgeting plan around the new potential customers.

More interesting from analytical point of view would be the question why exactly that way? Why not some other planning techniques? Robert C. Rickards in his article “An endless debate: the sense and nonsense of budgeting” have written about further development of planning and budgeting process taking all components of the planning system into consideration. He is taking ideas for improvements the planning process from the Horvath & Partners` CFO-panel. The most frequently mentioned concepts involve the amount of detailed planning content. (Rickards, 2008)Why startup companies are not using less detailed planning – that could be an easy approach to plan the financial future and save time and costs from the whole process of planning. Vladimir from Steemera said in the interview the he did the plan as detailed as he can – which according to him is really important task for a startup company otherwise important details might be missed. Todor partially agrees with Vladimir`s opinion about less detailed planning – but in his answer he mentioned that very detailed planning according to him is also mistake, because if a startup company spends too much time about planning the budget, the product might become outmoded. Till from Happy Eat was really clear about the less detailed planning.

”A less detailed planning will for sure safe time and make the process less complex but a company should never do that. Budgeting is an important task that should be detailed otherwise you might spend too much money on unnecessary things and go bankrupt without even noticing.”

Ryan from Kiwi also things that less detailed planning is not an option for a startup. The founder needs to include everything he or she has available.

“It is better to have something extra that is not needed rather missing something that you would need in the future”

According to the company founders less detailed planning is not an option for startup companies, they need to include everything they know in the plan. But at the same time spending too much time in planning is not an option, because you might miss the right moment to coming up at the market.

Next come employment of a balanced scorecard which links the operational and strategic planning by nonfinancial measures. According to Vladimir employing balance scorecard in Steemera, would have been complicated process. Their general strategy was to survive first year, impose the product on the market and attract customers. So in order to transform this general strategy into operational terms he needs to measure some non financial items like how clean the cars are – something that could not measured with figures. It is more about the subjective evaluation of how clean a car is.

Full fresh also did not use balance scorecard according to Todor. He also mentioned that his startup company did not have any long term strategy or significant project that can be transferred into operational measure. In his company high quality of the service is something that is set in the training of employees and embedded in the value system of the company, but the only way to measure that, according to him, is to subjectively evaluate the performance of the employees.

Till – the founder of Happy Eat said about the balance scorecard:

"The balance scorecard, in my opinion, is for transforming the general strategy into operational terms and the budget plan should accompany this. You can have both budget and balance scorecard next to each other because they are complementary. But in my opinion whole that thing will make the whole process more complicated. I and my partners prefer much more to sit on the table discuss what we should do in the future and then express in the budget in order to know where we go in nonmonetary terms."

The third approach for planning in the Rickards paper and the last that received significant percentage (more than 10%) from the Horvath & Partners` CFO-panel is the Rolling Forecast. Rolling forecast gives companies the agility and ability to follow changes and to cope with environment uncertainty while keeping an eye on strategic objectives (Marie – Anne Lorain, Should Rolling forecasts replace budgets in uncertain environment) which would give a great value to startup companies. Rolling forecast is something that partially and unconsciously is implemented in all four cases. Vladimir said he is revising and updating the budget with the newest information when he has free time which is couple of times in the month. Todor from the Full Fresh confirmed this is what exactly happened in their company – every month they made plans for the upcoming one. Kiwi did not change their budget a lot because Ryan took the decision they do not need changes since the startup is performing better than the expected. But according to his words he was checking the figures every week and if the budget needed some change, he would have done it. Till from Happy Eat was more than clear on that topic:

Budget planning should always be an ongoing process and revised every month, I guess. For bigger companies it is revised quarterly but for a startup it is better to revise it on a monthly basis because you cannot "waste money like a bigger company can".

There is one big difference from the actual rolling forecast and analyzes that were changing the plan if its needed on weekly basis. To be efficient, forecast need to be prepared in a few days, which means focusing only on a few key value indicators rather than lots of details. (Bunce, 2007, .p.7) Something that I already analyze and reach the conclusion that less detailed planning is not an option of startup companies, which means that rolling forecast is not the thing that is done in startups in my case study. Based on the responses from the company founders, less detailed planning, balance scorecard and rolling forecast are denied as a methodology suitable for startups.

Controlling

A startup company creates budget, starts the business and the next logical step is to use that budget. According to CIMA definition in the beginning controlling is very important part of using the budget and takes central place in the budgeting. But at the same time this is very contradictory part from startup companies' perspective.

As I said already said Steemera started changing their budget almost immediately after starting the company. They found new detergent on better price, add some new services like polishing cars, cleaning the engine and some more and this had an impact on the budget. The budget changed because of the things that were not known before the start of the company or because of some ideas that change the business. Steemera were not trying to stick the actual performance of the company with the planned one, it was more like a updating the budget and at the same time comparing the actual figures with the updated one. In the beginning they also signed the contract with Coca Cola about the static cell in the company`s building and this change the budget as well.

"We were comparing the actual performance with the budget all the time and if the figures were much lower than the one in the budget me and my partner were sitting on the table and tried to sit on the table and discuss what should we do in order to avoid that in the future"

Even though Vladimir used the budget for controlling purpose, the whole process was not so well expressed as other function that Vladimir used the updated budget for. He wanted to know where the company is going, what would be Steemera financial situation in a short term period of couple of months.

As a conclusion for they way Steemera used the first budget can be said that they were analyzing it all the time, updating it with information that came up in the process of working, but at the same time they were comparing the actual performance with the planned one. In the months when they were performing worse than the budget, corrective actions were taken in order to fix the problems.

Full Fresh`s case about controlling the company with the budget is a bit different than the one in Steemera. In Full Fresh the situation after starting the company turn out to be not as bright as it was planned. According to Todor the sales were just 2,3 % than the planned one. And of course they change the budget a lot and invest more money the keep the company on the market. They new things are not as expected and knew where exactly the problem is – in the employees. They could not find the people that suit to their company. One of the problems that Todor realize after Full Fresh bankrupted was that the three founders did not do any operational work for the company that according to him could save the company. Anyway this is a topic of another discussion. They try to take corrective actions and fix the company performance according to budget plan, but the things just did not work. They knew something is not going ok at the same time they transform the budget many times in order to know what the situation would be in the future, and if I can be more precise – how long they are going to survive with the money they have.

Both Full Fresh and Steemera changed the budget in order to foresee the financial situation of the companies in the future. At the same time, if they spotted a problem in the company, corrective actions were taken from the managers.

Kiwi has its budget used in completely different way coming from the fact that he performed all the time higher better than the plan. As I already mentioned he said after they started the company, they get on a roller coaster and did not have any time to analyze the budget, Ryan knew they are performing better than the plan and this was enough for him. What would have happened if Kiwi performed worse than the plan?

"As I already said I was checking budget and comparing it with the actual situation. If something was going wrong I immediately would have noticed that from the budget – the actual numbers would have been lower the planned ones. Then of course I will see where exactly the problem is, gather the employees and discuss it with them. I would change the budget if something occurs that I can not change in the actual life for a longer period – only something constant can make me change the budget"

I find some common points in the way Steemera, Full Fresh and Kiwi used their budget. Steemera changed the budget when they include new services to their portfolio or find new more effective or cheap detergent. Compared the performance all the time to budget and try to take corrective actions if something was wrong. Full Fresh compared the actual performance to the planned one, tried to take some actions to fill the gap between these two but after they saw this is not possible, they change the budget. Kiwi did not change anything but according to Ryan, he would change if something occur permanently and he does not have influence on it or a shift in the strategy. The big and massive things change the budget. When the budget is changed is up to date and then you can compare the actual performance with it and take corrective actions.

The same happened in Happy Eat. They did changes in the budget but basically this was due to change in the policy of the company, not so much related to the performance like it was in Full Fresh. They change the whole marketing strategy in the beginning of the period and put all their money in acquiring restaurant which reflected on the budget. They were comparing the actual performance with the planned one almost every week. If they see a problem they try to sit together on a table and discuss the problem. That is how they reach the conclusion to change the money that are allocated for marketing and acquiring restaurant. According to Till it is important to distinguish things that can change your budget and things that you have influence on them and you can change them to make the actual performance close to the planned one.

One possible way of evaluating the performance of the company and controlling is to compare with relative targets like competitors` performance. This practice is widely used in Beyond Budgeting method and is give a lot of flexibility for the companies and it is very suitable for organizations operating in uncertain environment. (source)

Vladimir completely deny the whole process of using relative goals because Steemera was innovative company on the market in Sofia that did not have any analogue. They could not compare with the car washes they used for the market research because the business was not the same. When they used them for the market research it was to know more like how many people in Sofia are cleaning their cars. They could not compare with the companies that had the same business and used the same technology as theirs because they were operating in completely different market with a city with different population and different weather. So according to Vladimir relative goals for controlling the company was not an option. The difference between Steemera and Full Fresh is that the second actually had some competitors even though they were specialized in discounts of certain kind of services and objects. Rositza – the manager of the promoters worked in those kinds of companies but basically she could not provide any information for this to Todor and his partners, so this was not an option for them as well. Even though Kiwi was kind of different and innovative compared to the other restaurant, he said he could compare the actual performance and this is what he actually did.

"I was checking all the time the competitors and we were much busier than most of the restaurants in Maastricht. But I could not use this as a main source of performance evaluation and controlling the company due to the big difference our business model had with other restaurants` business model – we were offering much lower prices than the others. So even though they had less customers than us they made more money out of one customer compared to Kiwi, so this was not a good base for evaluation."

Till from Happy Eat is on the same opinion as Vladimir:

"Relative goals are nice when you have direct competitors and access to their numbers. If you don't have these numbers though, it is hard to know where you are at"

Performance evaluation and controlling a startup company through relative goals is not the most suitable variant due to the fact that most of the companies are going on a new market without any direct competitors.

Three things can be said about using the budget as a controlling devise from startup companies after analyzing that in the four companies from my case study. Change in the strategy of the company or events that do not depend from the company change their budgets. After the budget is updated, the founders use it to foresee the company financial performance for the next couple of months and to compare the actual performance with the planned one. If events that worse the company financial figures compared to the one in the budget occur and the company have influence on them, corrective actions should be taken to isolate that events and fix the company performance.

Coordination and communication

Coordination and communication the company strategy is also very important functions of the budget in a company. Budget is not used for coordination and communication according to Vladimir. They have a small company without departments and many employees – goals, strategy and communication in total could be done face-to-face with the employees. Full Fresh did the same way as Steemera. Todor and his partners hired a manager responsible for the promoters. All the communication was done with Rositza and then she was responsible for the promoters` actions. Coordination through budget was needed due to the small size of the company. These two companies were similar in one way – both of them were not so big and it was easy to communicate and coordinate the employees. Kiwi was a bit different from that perspective – they had more employees, but Ryan was not using the budget for coordination and communication as well.

"Coordination and communication through the budget? Not really! In the beginning you try to make something work out of nothing. In that first phase very important is direct contact with the people. It is very important to stay always on the floor, talk with the people and navigate them. I don't think it is efficient to communicate with the employees of the company with numbers. They need words and, they need always to be on the floor. Regarding the coordination between the kitchen end the waiter – it is more about the face-to-face contacts between them. We are not multinational corporation to coordinate our departments through the budget"

Happy Eat is company even smaller than Steemera and Full Fresh, so using budget for coordination and communication is not making a lot of sense.

As a conclusion out of this part I would say that budget in startup companies is not use as a communication or coordination devise because of two reasons – first the companies are small and second even if the company has bigger size you really need to use more direct ways to communication and coordination. In the beginning you need to inspire your employees and make then really want to work for your company. So it is a matter of contact with the people and using the right words.

Performance evaluation and Incentive system

The final purpose of using the budget is building incentive system around which motivates your employees. Steemera used very simple incentive system for apprising and motivating their employees – they give them part of the revenue. For every car that was cleaned, the employee that worked on it takes part of the money paid from the customers. According to Vladimir in that sense he stimulates the employees to do a good job - if they do a good job, the company will attract more customers and this will give the employees more work, which will give the opportunity to earn more money. Another positive side of this method according to Vladimir is the simplification – it is easy for him – no need for complicated calculation and for his employees – they know how much money they would make. Full Fresh chose different way to express the goals – they based the incentive system on the number of sales. The difference between Full Fresh and Steemera was in the fact that the direct sales in Full Fresh depend a lot on the employees. Todor and his partners decided to put target related to the budget. In order to execute the planned performance they set a target to employees from 15 cards per day per employee. If someone reach the target, he or she earns a bonus.

Full Fresh incentive system looks a bit more developed compared to the one in Steemera. Todor and his partners set targets and bonuses if you reach the target. Unfortunately this was not enough to stimulate the employees enough and according to him the biggest reason for Full Fresh bankrupt was exactly the poor staff. He blames the recruitment process, not the incentive system. Steemera itself did not use any targets or bonuses, because Vladimir did not want to make any complicated bonuses system. According to him, their business was really clear – "the car needs to be clean" and he tried to follow that simple line in the incentive system.

Kiwi uses different strategy than the first two companies – their employees have a salary they receive every month that do not depend on the performance of employees. The guys working on the bar and the waitresses receive tips on top of their salary. Ryan decided to give bonuses only to Nicky – the manager responsible for all the other employees. Ryan set her target on 90 € revenue per hour for the restaurant – enough money that company can earn hourly and reach its budget. The way target is set is the same as in Full Fresh – both companies wanted to make employees reach a target that was enough the reach the performance planned in the budget. The difference is that Todor used operational units and Ryan used monetary units. Happy Eat relate the salary of its only one employee to the contracts that were signed with the restaurants. This was not related to the revenue but was directly related to the strategy Happy Eat want to execute – more and more restaurants in their list.

Incentive system is something that highly depends on the business of the company but as a conclusion I would say startups are looking for an easy and not very complicated method of creating the incentive system. The salary that employees got should be directly related to the amount of revenue. If any target is set, reaching the target from the employees should make the actual performance on the level of the planned one.

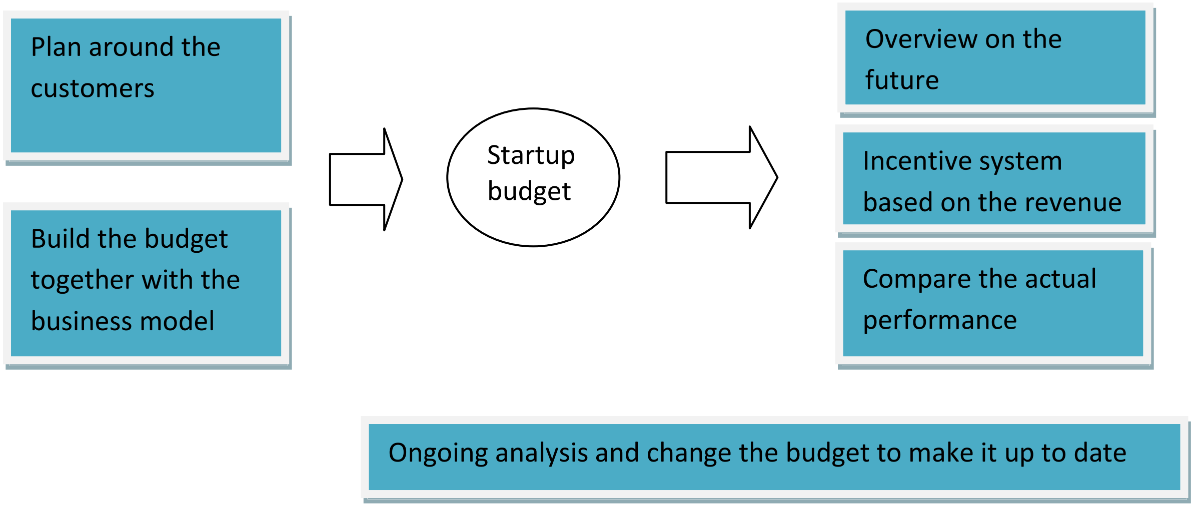
None of the companies involved employees in budgeting process, all of them used top-down approach for building the budget. This came from the fact that the first employees were familiar with the idea of the company and company founders could not rely on them participating in the budget.

Framework

A lot of research has been done with the area of both budget and startup companies. However, prior research seems to focus on budgeting in already existing companies and management accounting systems in startup companies in general. Based on the case studies of Steemera, Full Fresh, Kiwi and Happy Eat, resulting in clarifying the process of creating and using the budget and the budget itself in relation with the give main budgeting functions , this section focuses on which factors that have been pivotal in order to secure a sound startup budgeting process in the four cases. The result is a conceptual framework focusing on a more practical perspective, acting as guide for entrepreneurs on how to build startup company budget and use it into practice.

Going through the main principles of practical usage of the budget and the process in the four startup companies in my case study, some important factors of the creation and the usage of the budget from a startup companies, have been identified.

1) Creation – creating the budget is not an isolated process. The budget is done while the founders create the business model and do the market research. In that way all the important thing that need to be taken into consideration will be reflected in the budget.
2) Planning – The budgeting plan numbers are based on a solid market research done around the customers. Exact amount of the target group is defined. Based on the interview and surveys among them founders come with a figure for sales that the startup can realize on monthly or annually basis.
3) Ongoing budget analysis – many things that are not taken into consideration when the founder creates the budget come up when the business is already started. That is why the budget needs to be analyzed all the time and changed if it is needed. That will make it up to date.
4) Updated budget is used as a tool to foresee the near financial situation of the startup
5) The actual performance is compared to the planned one and corrective actions are taken if it is possible.
6) Performance evaluation and incentive systems are simple and directly related to the performance.



Discussion

The conceptual framework which is a result from my analysis on the topic presents how a startup company builds and uses the first budget. It has six important elements around the budget that needs to be taken into consideration when a startup is creating and using the budget.

The findings gave an important view of the planning process in startup budget. The main problem in new-founded companies when creating the profit plan is the fact that they do not have any historical information to base the plan on. Almost all the startup companies create a new niche on the market with their innovative idea. Planning the performance of the startup in this new niche is difficult to predict because there are no industry norms set yet. The analysis and the framework gave a good overview on the how a startup should build the plan.

One alternative explanation of the findings could be that with planning process conduct around the potential customers, the founders just want to make sure that clients will like their idea. The two startups in the current case study that used that methodology probably changed a bit their ideas under the influence from the potential clients during the interviews. If you make your product to answer customers` desires and build a realistic budget, than there are no doubts that the actual performance is going to reached to planned one. Founders in Kiwi and Happy Eat explained that they build the plan around the customers other people would say they adjust their plans to the clients.

When looking into the framework it might be striking that the budget is changed all the time in order to foresee the financial future of the company and at the same to control the actual performance of the startup. The question that may arise is how a budget that is analyzed on short time basis and it is changed all the time can be used to evaluate the performance of the company. The company financial figures can be compared with a constant one, not with constantly moving one. Founders of startup companies in the current case study research suggest to define a difference between the events that company does not have influence on and events that the startup does not have power over them.

The fact that this is a single case study makes it difficult to generalize the conclusions. However, based on the findings from budgeting process in the four startup Steemera, Full Fresh, Kiwi and Happy Eat, a conceptual framework is presented. In order to confirm or reject the framework, a survey where a sample of startups can be asked about the current framework.

Conclusion

The reason for this paper came from desire to explain the budgeting process in the startup companies for founders that are making the first steps in the entrepreneurship. Many of the startup companies failed during the stage when management accounting systems are involved in the company control system.

The paper highlights six important steps and put them in a framework which serves as the explanation about the startup budgeting process. The main findings based on the analysis are focused on six procedures. Budget should be created not as separate process but as part of building the business model. Budget should be plan around the customers' desires. During the first year, the budget should be analyzed on short time basis and when it is updated can serve for foreseeing the near financial situation of the company and comparing the actual performance with the updated one. The inventive system of the company should be build around the revenue part of budgeting.

The papers investigates important topic which has not received significant attention in the literature. The importance comes from the fact that startups are becoming essential part of today`s economies.

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Appendix A – Case Study Protocol

An overview of the case study project

The case study is aiming to give an answer to the question how a startup company which founder has no entrepreneurial experience builds and uses its first budget. Theoretical framework used for the case study was based on the five functions that budgeting has in practice. The role of the case study protocol is to build reliability on the current case study research.

Data Collection Procedures

Data collection was done by having two interviews with each of the company founders. Interviews were taken via Skype with the following contact persons: Vladimir Stamenov – Steemera; Todor Gerovski – Full Fresh; Ryan van Bun – Kiwi; Till Kahlen – Full Fresh. All of them were founders of one of the startups and in addition to that they took the main role in creating the company budget. Main budgeting functions in practice was the specific information that needed to be covered in the interviews.

Case Study Question

The specific question that the case study investigator must keep in mind:

1. Main information about the company - location, idea, founders?
2. Characteristics of the first budget: duration, how long did it take, who created?
3. How did you build the budget plan?
4. How did you use it through the year?
    a. As controlling devise?
    b. For coordination?
    c. For communication?
5. Did you evaluate the performance of employees with the budget?
6. Any difficulties you experienced?

Guide for Case Study Report

The outline of the case study is:

1. Abstract
2. Introduction

3. Problem
4. Theory
5. Research question
6. Research Method
7. Natural cases
8. Budgeting process
9. Analysis
10. Framework
11. Discussion
12. Conclusion
13. Bibliographical information at the end of the paper.

Appendix B – Interviews with companies

Steemera – First interview

Evgeni: Tell me some general information about your company

Vladimir: Steemera is company founded in the summer of 2012 and operates in Sofia, Bulgaria. Company's main activity is cleaning and especially washing cars in and out. The main concept of the company is that work with steam mashine based on new technology that does not spray any water, only steam. That is completely new technology that saves a lot of water and makes the mobility possible. Mobility in sense that not much water has to be carried in order to wash a customer's car. This mobility it's the thing that makes the difference between Steemera and its competitors. In the normal car washes you have to drive your car to one of them in order to get your car cleaned. Not this is the case in Steemera – they have company cars with one of those machines in each car and they go to the customer in order to get the job done. We got the idea from watching videos on YouTube about those kinds of machines. This happened two years ago and we discussed the idea. We have always been talking about starting a new innovative business and always have been carrying that entrepreneur spirit in us. We saw those machines on an online market in USA and decided to buy one of those. Before buying of course we spent around a week for creating the future company budget. We did not spend a lot of time for creating the first budget – we were so enthusiastic about the idea that wanted to start as soon as possible

Evgeni: Lets start talking about the budget. Did you make any budget before starting the company

Vladimir: This budget was created right before taking the decision about buying the machines and starting the company. Part of the creating the budget was research of the market – and especially the price. Since there were no other companies offering the same service – we used the prices of carwashes as a base and modified a bit. We calculated approximately the costs that go into the price. On first place when defining the price was our intention to start at the lowest possible price which allows us to stay on the market and survive the first year. We wanted to launch a new product on the market, so we wanted to start at the lowest possible price that will allows to survive the first year and at the same time make the people use our services. We also define how much are going to earn and what is work load we want.

The first budget was for a period of one year. It took us not more than a week because there was nothing complicating in our business – there were not a lot of numbers to calculate. We did not use any professional help from accountant or guy with financial background due to the reason that both of us did our education within the sphere of Economy, Business and Finance.

Evgeni: Which was the biggest difficulty you have experienced in the beginning?

Vladimir: The biggest difficulties with the budget we have experienced in the beginning came from the fact the technology was new and innovation for the Bulgarian market, so we could not take the numbers for the performance of some other company and base the budget on them. Its always ease when you can take the numbers from already working business. We used some cash flows and sales from car wash but again the activities performed by both types of companies were different even though they have some similarities. But again - a lot of guessing.

Evgeni: Tell me more about budget planning

Vladimir: This is something what you cannot plan, when you start a new company is. What we did is starting from the bottom line to the top. We calculated the sales and the price we need to obtain in order not to be on lost for the first year. We knew the minimum profit we need in order to survive the first year. One year would be enough for us to get into the market and start make profit as of the second year start. In case of Steemera, we got really lucky – one month after starting the company contract with Coca Cola was signed and we had a cell in Coca Cola`s garage which was built especially for cleaning company`s cars. This helped their business a lot of, but this was something that could not be planned one month in advance.

Evgeni: Did you change your budget during the year?

Vladimir: After the year started we changed the budget many times. A lot of things changed after we started the company. We found ways how to save costs – for example using cheaper detergents. The budget changed almost at 100 percent after the after two months. In our case we started a new company without any experience and we open a new market – it is impossible to have a match between the planned performance in the budget and the actual performance. We changed the budget all the time in order to know where we go, but at the same time we compared our actual performance to what we planned in order to know our current situation.

Evgeni: Did you use your budget for coordination

Vladimir: The first budget was not used a lot for coordinating the company. The employees had a standard working time from Monday to Friday. I do not buy any resources in advance. The company is small has no departments that need to coordinated.

Evgeni: Did you have long-term strategy

Vladimir: Like almost every new company, Steemera had a short term strategy as surviving the first year on the market and getting customers. We had a long term strategy to go out of the Bulgarian market – when we bought machines the vendor told us that they did not have any other partner or dealer for Balkan Peninsula. These gave a really good hint to us that our long term strategy could be becoming a reseller for other Balkan countries like Greece, Romania, Serbia and Macedonia. But this was not taken into consideration when creating the first budget and we did not spend a lot of time thinking about the long term strategy. When we started the company we were focused on surviving the first year because we have read a lot of researches talking how 9 out 10 start up companies failed during the first year – we talked about the long term strategy but that was also. Did not have any resources to invest in marketing over the Balkans

Other plan was creating a franchise brand but this was again not taken into consideration into first year budget or into the short term objectives. We were really focused on getting experience and knowledge about the market and product and surviving the first difficult for all start-up companies year.

Evgeni: Tell me more about employees and incentive system.

Vladimir: We had three employees. Employees salary is percentage from the revenue so the money they get are tightly related to the revenue in the budget. At the same time the employees do not have any target on any timely basis. The only target was very subjective - If they are doing good job, the customers are happy and come back to us again – so more revenue and more money for the employees. All three of them have previous experience in car washing, so I ask them for advise on the technical part – way of cleaning the cars, using the right detergent, but nothing more than that – they did not participate in the first budget, I did not ask for their opinion about the sales or something related to that. We operate in this kind of business that I cannot put quantitative target to my employees and tight it to the incentive system. The sales depend of course on the way they do their job – but this is very subjectively. They also depend on the way me and my partner promote our company

Evgeni: Is the first budget important for the company and in what way?

Vladimir: There is no way a company can starts without budget and it is very useful in setting your objects – know the right direction you are going.

Steemera - Second Interview

Evgeni: Did you do any market research? Surveys? Or you talk only with carwashes?

Vladimir: No, we just relied on the talks with carwashes in Sofia and our partners in Poland and Slovenia

Evgeni: Did you take the budget into consideration when you decided if you want to start the business? If the budget was showing negative final result would you still start?

Vladimir: We would not start if the budgeting was showing negative result. We took into consideration.

Evgeni: Do you think that start-up has one task during the first year – to survive and make the product working

Vladimir: Yes

Evgeni: Do you think that your employees are stimulated enough with these percentages from the revenue?

Vladimir: Yes, I think so.

Evgeni: Would you use rolling budget?

Vladimir: Yes, we are always analyzing and changing the budget if its needed

Evgeni: Do you think that less detailed planning will save you a lot of time and make the whole process less complex?

Vladimir: I would not use less detailed planning. I did as much detailed as I could.

Evgeni: Would you use Balance-score card?

Vladimir: No, it's too complex. And it is difficult for me to measure the nonfinancial measures for my company.

Evgeni: Do you think that instead of using the budget you can use relative goals to beat the competitors and this will give an idea where exactly are you?

Vladimir: No, our product is innovative and we can not compare with the rest

Full Fresh – First interview

Evgeni: Give me some general information about your company?

Todor: Full Fresh Club is a start up company founded December 2011 in Sofia, Bulgaria by three partners – me, Aleksander Stefanov and Viktoria Borisova. The companies sell and spread cards you can use for getting discounts at different partners like restaurants, shops, sport centers and others. The partner which got included into the cards does not pay any fee for being into the card – they get promoted against giving small discount to customers – 5 – 15 %. At the same time the customers are paying the sum o 15 BGN which is around 7.5 euro. All of us studied Entrepreneurship as a course program in our Bachelor, and I did Marketing in my Masters, so starting a new company based on Marketing was the perfect combination for us. All three of us have the entrepreneurial spirit in us and when we got the idea for Full Fresh Club, did not waste a lot of time thinking about that. As a long term strategy we wanted to create a software system for tracking cards in each of the objects. In that way we can track what kind of products each of the customers is demanding and send him or her special offers for the products that he/she buys most often. This would have cost a hell of a lot of money and we could not afford that at the beginning.

Evgeni: Did you create a budget before starting the company? Tell me more about it?

Todor: We spent around two to three months to research the market and make the budget. We did not spend all two to three months in building our first budget, but it was part of a process that we were working on starting the company and everything took us up to three months. The time dimension for it was one year. We did not use any help outside of the company in order to build the budget. All of us have education in economics.

Evgeni: Lets talk about building the budgeting plan?

Todor: When started planning the near future we spend significant time on researching the market not on actually building the budget. The good knowledge of the market would help us to plan the revenue in a correct way. We did not have a lot of problems defining the costs – we knew how much salary would we give to the employee, we knew about how much does it cost for creating one plastic card and of course we add a lot of reserves just in case something goes wrong. After we finished our first year, I would say the actual expenditure part almost matched with the planned. The real pain was creating the revenue. We could not plan how many discount cards we are going to sell. After the first year finished and I looked at the initial budget we had – the actual revenue numbers were not more than 3% of what we planned.

Evgeni: What about controlling the organization with the budget

Todor: Right after starting the new company we started changing the budget as well. The budget after one year was more then 60 percent different than what it was planned. So it was difficult for us to stick the company to the budget. We adjusted the budget all the time based on companies real situation in order to know where we are going and what is the company future. As all three of us graduated from Entrepreneurship Bachelor program and we learned one lesson for start-up companies – "You need to have a working product, before the money are over" , so we were really focused on the product, and the budget was something that we were changing all the time in order to know where are they going – is it the right direction and where are we going to be in a year from now. It is not a matter of controlling the organization with this budget, it is more like showing you the future – analyze it all the time, changing it all the time in order to know where you are going

Evgeni: Tell me more about coordination and communication functions of your budget.

Todor: We did not use our budget for those functions in practice.

Evgeni: How many employees did you have? Did you evaluate their performance with the budget?

Todor: We had three employees and one manager responsible for the selling the cards. She had pervious experience in selling discount cards for theaters. Small part of her salary did not depend from the company performance – everything on top depends on the cards that company employees are going to sell. The employee's salary was only based on their actual performance. The more cards they sell, more money they get. When started the company we did not expect to have such a problem with finding the right people for his job. For a year we changed the people that worked for us already a couple of times. No job satisfaction, low salary was the main reason that the leaving employee pointed out in front of me. When setting the target for their job, I took into consideration the profit that company needs to make in order to survive the first year and to have time to make a product that is recognizable on the market. We tried to make targets for our employees fair enough. They were not so difficult to reach – the minimum that we need in order to go on profit. We tried to motivate them with other things as well – the money is not enough. I have always try to be nice with them, tried to build a good team, be very friendly – go out with them once in every two weeks to a restaurant or a club, of course the company paid the bills every time… but just did not work out. They were leaving every two months; we had only couple of good workers. We could not sell the cards we need in order to cover our expenditures… the money we invested in the company were over and one day we just decided that it is time to give up… we bankrupt.

Full Fresh – second interview

Evgeni: Did you do any king of research like interviews and surveys? What was your target group?

Todor: No. I had that idea, but did not get any support from my partners

Evgeni: Did you take the budget into consideration when you decided if you want to start the business? If the budget was showing negative final result would you still start?

Todor: Yes, I had limited amount of financial resources, so we took that into consideration.

Evgeni: Do you think that start-up has one task during the first year – to survive and make the product working

Todor: Yes, I do think so.
Evgeni: Do you think that less detailed planning will save you a lot of time and make the whole process less complex?

Todor: Less detailed planning is not good option, but spending too much time in planning is not good as well since you want to make an innovative product.

Evgeni: Would you use balance scorecard?

Todor: Not really – it will make the process too complicated we do not really have any nonfinancial goals that can be measured with numbers

Evgeni: Do you think that instead of using the budget you can use relative goals to beat the competitors and this will give an idea where exactly are you?

Todor: No, because we did not have any information from the competitor companies

Evgeni: Do you think that it is a good idea if you give more power to the employees and don't put pressure on them with the targets

Todor: We tried to do that, we set a target for getting a bonus but the target was not mandatory. Gave them a lot of freedom, but did not work out.

Kiwi – first interview

Evgeni: Tell me some general information about Kiwi?

Ryan: Kiwi is innovative place in the heart of Maastricht, the oldest city in Maastricht. It was founder in year 2009. It is like library, restaurant, bar and dinner and disco – all in one for students in Maastricht. It offers really low prices compared to competitive places.

Evgeni: Did you create budget before starting Kiwi?

Ryan: Yes, I did. I created the budget that covers period of one year. I did not use any help from financial accountant or any other people with finance or economy as a professional background. I am the one who knows my business, not the accountant or the guy from the bank. He doesn't tell me what to do, I don't tell him what to do. For me personally accountants never make difference. I and my ideas are things that make the difference and I know what to expect from my ideas.

Evgeni: How did you build your budgeting plan?

Ryan: Before starting any kind of business you really need to do a good research and then based you plan on this research. The most important aspect according to me is to focus on customers. Make your plan around the audience. My plan is not the customers plan. Don't create the products and then cell, first see what customers want and create your product. So I had the idea about that new modern place in heart of the old Maastricht and I did a good research on customers via interview and surveys. I really wanted to make sure that the new potential customers will like my idea.

Evgeni: How did you use the budget though the year? Did you control the company with it?

Ryan: Honestly, I got on a roller coaster – plans and everything they vanish on the table, we just had to make sure that we got quality on level because we were busy. We don't want to chase our customers away because the food is not good, so we were totally focused on making sure that product is good and continues. The budget plan – we did not even care about them at that moment because we were out of concerns. I was checking if the actual performance of the company is better than the planned; no analysis was done on the budget and no discussions on the topic with the other employees.

Evgeni: Do you use the budget as a devise for coordination and communication your company.

Ryan. I coordination my employees and communicate with them face-to-face. I don't need budget for that.

Evgeni: Did you evaluate the employee performance with the budget.

Ryan: Only the general manager performance. She has a target of 90€ revenue for the restaurant per hour. It we reach that she got the bonus. All the other had flat salaries and tips.

Happy Eat – first interview

Evgeni: What is your company doing?

Till: You can not only book a table but on the other hand the restaurant tells you if you have any free tables and offers you 20 percents. It is basically marketing. It is for Maastricht and Breda. We are seven founders. The app is already working and you can download it now. We have two IT guys, they are friends of one of the founders. We are not paying them – they have share. We started the company June.

Evgeni: Did you create budget (profit plan)?

Till: Yes

Evgeni: Tell me more about it?

Till: I created the budget. It took me around half a day - only calculating everything. I created the budget for one year. The most difficult part was to calculate the costs. Because we were travelling around the Netherlands in order to acquire new restaurants and we did not know if they would agree from the first talk or we need to go other time and talk again with them. So we could not calculate how much does it cost to acquire a restaurant per average. Travel costs. We need to get to a place to walk around and return and hotels expenditures.

Evgeni: How did you create your profit plan without any historical information?

Till: I made a big excel file with all the market data. Specified what its our targeting group with a list of our potential guests. And from the other restaurants. And every time a customer goes to a restaurant the restaurant pays us money. So we calculate how many people go out to eat and how many resturants we had. So calculate that our target group is 1 percent of the whole Netherlands. So our target group is living in the area of Maastricht over 18 going out for dinner, having Iphone or internet and then calculated this number. Then we calculate how often they go out for a restaurant. For example for Netherlands is 38 times per year. I got these numbers from articles, www, statistics. We did a lot of surveys. Planning is based on really good market research. This research took us month and a half.

Evgeni: Tell me more about controlling

Till: Almost immediately after we started we changed our price policy and our budget. Our initial plan was to charge the restaurants monthly for 20 euro and charge 1 euro per guest. But the restaurants did not like the monthly fee. So we cut it out the monthly fee and raise the charge per the guest to 1.5 euro. We were comparing the actual performance and were trying to take any corrective actions if needed

Evgeni: What about coordinating and communicating as budgeting functions?

Till: We did not use our budget for coordinating the organization or communicating the objectives due to the small sizes of our startup

Evgeni: How did you evaluate the employee performance?

Till: We had only one employee and his salary was based on the work he does – engaging Happy Eat with restaurants in Maastricht and Breda. No goals and flexible working time.

Happy Eat – second interview

Evgeni: Did you take the budget into consideration when you decided if you want to start the business? If the budget was showing negative final result would you still start?

Till: It is not short term issue. If I see that company don't make money first three months it is ok. If its longer period than it is something wrong – I don't start the company. We made a loss in the first few weeks.

Evgeni: Do you think that start-ups' most important task during the first year is to survive and make the product working?

Till: Sure, surviving is essential. But make the product work is not that important. Some products need years of planning. And if you are well funded it shouldn't be a problem to work longer than a year on your product. Other important tasks include team building, finding investors, and networking!

Evgeni: In terms of planning – do you think that you can make better budget plan for your company if you base you figures on competitors numbers (or not direct competitors just some companies that are already on the market) For example in your case some other I phone applications related to something close to yours.

Till: It might be useful for a first direction but every company works differently and thus, I'd say, I cannot make a somewhat better budget plan!

Evgeni: You said you created this big research before you started the company (the big excel file). How exactly did you transform the research into budget? How did you come up with the number in your budget?

Till: The big excel file was about the possible future cash flows. It showed me how big the market is, who exactly our target group is, and what we can possibly achieve with our idea. Our budget consists of three cost blocks: acquisition, marketing and administration. For acquisition, my excel file gave me kind of a roadmap. We want to acquire, le'ts say, 25 restaurants in the first year, 10 in Maastricht and 15 in Amsterdam. For the 10 in Maastricht our budget is 0€ because we lived in Maastricht. But for Amsterdam I could calculate the costs of travelling, accommodation and such for acquiring said 15 restaurants. So my excel file told me how much we want to achieve and I calculated based on this the costs and that is the budget. Administration costs are somewhat clear. You kinda know what costs come such as registering at the chamber of commerce, notary costs, etc. So you take this and add like 20% for unsual stuff (e.g. business cards or server costs) and then you got this budget. And as we don't have any co-workers we have no costs there. The rest is basically for marketing. And that is our budget. Maybe again for clarification. If you have a vision or a clear roadmap and know what and when you want to achieve certain milestones you can calculate the money you need to reach these milestones and this is our budget plan.

Evgeni: Do you think that good planning technique for Startup Company is to think about planning as ongoing process during the first year of the company? To revise or even create new plan on shorter time basis (one week or ten days)

Till: Budget planning should always be an ongoing process and revised every month, I guess. For bigger companies it is revised quarterly but for a startup it is better to revise it on a monthly basis because you cannot "waste money like a bigger company can".

Evgeni: Do you think that less detailed planning before starting the business will save you a lot of time, costs and make the whole process less complex?

Till: A less detailed planning will for sure safe time and make the process less complex BUT a company should never do that. Budgeting is an important task that should be detailed otherwise you might spend too much money on unnecessary things and go bankrupt without even noticing.

Evgeni: Do you think that good for your startup would be the Balance-score card

Till: The bsc, in my opinion, is for transforming the general strategy into operational terms and the budget plan should accompany this. This means the objective is to build the budget AROUND the initiatives or "outcomes" from the bsc. For example: General strategy -> increase ROI… The bsc would for example say for increasing the roi we need more users. An initiative derived from the bsc would be to make marketing (lets keep it easy ;)). Now the budgeting comes into play and has to answer the question: How much of our budget can we allocate to this certain initiative called "gaining users via

marketing to increase roi"?
What I want to say is that you can have both next to each other because they are complementary.

Evgeni: Do you think that you can evaluate the performance of your company with relative goals like for example to beat the competitors and this will give you an idea where exactly are you?

Till: *Relative goals are nice when you have direct competitors and access to their numbers. If you don't have these numbers though, it is hard to know where you are at.*