



PLANNING WITH OR WITHOUT BUDGETS? THE “NEW CONTROLLING” APPROACH

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Abstract: *Today's companies are influenced by a multitude of internal and external factors that cause changes in its framework. Within these changes, the controlling department acquires a considerable importance, because the companies must monitor the competition on the market, the products offered, customer's status and as well the value created. As a consequence, a requirement for controlling is to be more process oriented than was in the past. This means that activities like planning, coordination and control activities must be adapted. This process is currently called new controlling or re-engineering and some of the new tools with which it operates are for example Beyond Budgeting, Advanced Budgeting, Modern Budgeting, Balanced Scorecard, Target Costing and Benchmarking. The current paper aims to present this transition from traditional controlling to new controlling as well as the tools used by controllers, focusing more on the budgeting process as one of the main research question is: “Planning with or without budgets”?*

Keywords: *new controlling, beyond budgeting, advanced budgeting, modern budgeting.*

1. INTRODUCTION

Today's companies are influenced by a multitude of internal and external factors that cause changes in their framework. Within these changes, the controlling department acquires an important consideration, because the companies must monitor the competition on the market, the products offered, customer's status and as well the value created. As a consequence, a requirement for controlling is to be more process oriented than was in the past (*Horvath & Partner, 2009, p. 286*).

So the current paper aims to present this transition from traditional controlling to new controlling, focusing more on the budgeting process as it represents one of

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the main tools used and well known in controlling. The budget represents the costs and the revenues within an organization and is also a measurement tool for control, coordination, communication, motivation and performance tracking (Yee, Khin and Ismal, 2016).

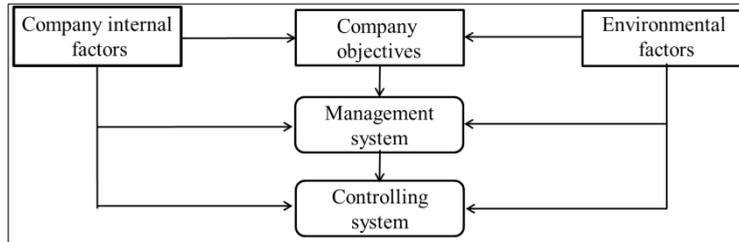


Figure 1 Frame reference of the controlling system
(Adapted from Horvath & Partner, 2009)

Over the years budgets started to being criticized by some authors that are mentioning that they have a conservative perspective when we talk about an uncertain or constantly changing environment and they become inflexible and do not support innovation (Sponem and Lambert, 2015).

Therefore the main research question is: Are the companies going to plan with or without budgets?

In this article we will answer this question by conducting a state of the art of current knowledge. Why do we need a review of the literature? Because in order to create new knowledge we need to connect the past with new scientific research (Massaro et al., 2016).

In this study we will describe the methodology and the research questions, the results that we found regarding the characteristics and dimensions of the budgets, the critics that the theoreticians and practitioners are mentioning about this tool and of course the solutions to these problems that consists in new instruments that the new controlling operates with, like Zero Based Budgeting, Activity Based Budgeting, Balanced Scorecard, Beyond Budgeting, Better Budgeting, Advanced Budgeting. Last we will describe the conclusions and the future research opportunities.

2. METHODOLOGY

In order to answer the main research questions a literature review was conducted. For a literature review there are many methods we can use: systematic review, meta-analysis, rapid review, literature review, narrative review, research synthesis and structured literature review (Massaro et al. 2016). A literature review

helps us to understand the development of knowledge on what authors wrote (*Silverman, 2013, cit. by Massaro et al, 2016*).

In order to realize the study for the current paper, a meta-analysis was conducted and following databases were searched: ProQuest Central, Springer Link, Web of Science. We focused on these databases because they contain the largest number of relevant articles in the field chosen for scientific research and to which of course we had access.

Meta-analysis provides us with an objective process of reviewing literature, by using objective procedures for the selection and analysis of the articles (*Stanley, 2001*). The Meta-analysis combines studies from different, but related, studies in order to provide empirical knowledge about causal associations that would not be possible from just one single study (*Matt et al., 2010*).

The approach taken for the meta-analysis started with the delimitation of the sample, to do so, some steps were followed. We started with the delimitation of the field investigation, this means controlling, financial accounting, management accounting, management. We used specific key-words in order to search the databases and we established specific research criteria (period, english language, full access for the articles) and the results that were not needed were excluded (chapter books, duplicates articles, articles not relevant for the research topic). The abstracts were read and the contents that were not relevant were excluded from the full article reading. A branched bibliography approach was used as well, as we consider that the articles cited by the authors were really relevant so we included them in our research.

While studying the content of the articles we are following to answer the following detailed research questions, beside the main research questions mentioned above in the paper.

- What are the current dimensions of the budgeting system?
- Do budgets add value for the organizations?
- How satisfied are the users in working with budgets?
- Are there any critics of budgeting?
- Do we have some alternatives instead of using budgets?
- Is the approach of managing without budgets be more suitable for specific business fields?
- Are there any relationships between budgets and other controlling tools and processes?

In the next section we will answer these questions by searching the current literature.

3. RESULTS

3.1 Budget Characteristics

In a dynamic and competitive environment, controlling and accounting are gaining more and more importance. Controlling is used for planning, decision making and performance evaluation (*Hofmann et al., 2012*). As a consequence, a requirement for controlling is to be more process oriented than was in the past. This means that activities like budget planning, coordination and control activities must be adapted. This process is currently called new controlling or re-engineering (*Horvath & Partner, 2009, p. 288*). In this paper we will focus more on the budgets as one of the main instruments used and well known in controlling. Further we will briefly illustrate some characteristics and dimensions of the budgets.

The budget is a well known instrument of operational planning that is used in the companies. Budgets are used to allocate resources and estimate costs (*Badea and Dobrin, 2006*). Budgeting, as a structured process, transpose the actions that are planned into money. Budgets include also the economic resources needed to be allocated and also the goals that need to be achieved by management (*Zimmerman, 2006*, they serve also as a mediator between long-term planning and current planning in order to transpose strategic planning into quantitative goals for one year (*Hofmann et al., 2012*).

By comparing the planned data with actual, some variances can occur over the year and this means the need to improve and adapt the planning (*Rickards, 2006*).

When we talk about a budget system we mean information flows and processes as an integral part of a short-term, range planning control system of an entity (*Merchant, 1981*). Author *Bouquin (2006)*, (*cit. by Sponem, Lambert, 2010*) is presenting three main dimensions regarding the budget system and process: finalization of the budget (before the action takes place), steering of the budget (during the action in a specific time frame) and post-evaluation (after the action, usually 1 year).

Historically the budgets played an important role in the organizations (*Libby, Lindsay, 2010*). The budget, as a management tool, was firstly used in 1920 by Alfred Sloan și Donaldson Brown at the General Motors company (*Berland, Ronge, 2019*). Budgets have many roles since then: planning and forecasting, control, managerial role, strategic role (when used to implement strategies) and provide performance indicators (*Sponem and Lambert, 2015*).

In 1999, almost 99% of the companies were using the budgets according to a study published by the Association of Financial Directors and Management Control

(*Berland, Ronge, 2019*). The budgeting system developed in a certain context: markets and value chains were stable, the competitors were known, and their actions predictable, the life cycle of products and the strategy of companies were spread over time (*Berland, Ronge, 2019*). Traditional budgeting developed in the industrial ages and nowadays post-industrial businesses are requiring more flexible controlling instruments (*Rickards, 2006*).

Also the author *Banham (2000)* is highlighting that many companies are setting out a new retooling path including also a reengineering planning and budgeting process. This means that the focus is to integrate software applications with strategic and tactical data in order to spend less time on the budgeting creation.

3.2 Critics to the budgets

In the current literature, budgets are being criticized by some authors that are mentioning that they have a conservative perspective when we talk about an uncertain or constantly changing environment and they become inflexible and do not support innovation (*Sponem and Lambert, 2015*).

The author *Hansen et. al. (2003)* also summarized the following criticisms to the budget system: the budgeting process consumes a lot of time and costs, due to their fixed nature, budgets prevent companies from adapting to changes, budgets are sometimes disconnected from the company's strategy. *Berland and Ronge (2019)* stated also that the budget is centered on the resource allocation rather than on the customer's needs (outputs), it focuses on departments rather than the interdependencies between departments, suppliers and customers, predictions are often a simple projection of the past.

There are also many other reasons mentioned for making changes in the budgeting systems such as: budgets can be manipulated (self-interest), budgets reports do not have a meaning for the front-line employees, budgets are not drivers for constant improvements (*Ekholm and Wallin, 2000; Neely et. al., 2003*); budgets are not aligned, connected to the firm's strategy (*Ekholm and Wallin, 2000; Neely et. al., 2003*); *Libby, Lindsay, 2010*), the budgeting process consumes a lot of the manager's time (*Hansen et. al., 2003; Libby, Lindsay, 2010*), budgets are inhibiting companies in adapting to changes, as they have a fixed nature and they are promoting budget gaming for performance evaluation (*Hansen et. al., 2003*). A budget system can provoke a conservative behavior and discourage cooperation, is used mainly for past performance, can produce stress and is blocking innovations (*Sponem, Lambert, 2010*). Budgets ignore the turbulence of the markets, can lead to unethical management behavior (*Rickards, 2006*), are focusing more on departments

and functions performance rather than company's value creation (*Nguyen et al., 2018*) and are not flexible and adaptive in case of unpredictable environments (*Libby, Lindsay, 2010*).

We have to point out here that, until now, researchers are trying to explain the criticisms levels against the budget via the external contingency factors, based on the research they made. Actually the way in which the budget is used and the roles that it has, will influence the criticisms that are formulated against it (*Sponem, Lambert, 2010*).

The budgets would be more criticized when the company operated in a higher uncertainty of the environment or when the new focus is to innovate the strategies (*Bescos et al., 2004, cited by Sponem, Lambert, 2010*).

3.3 Solutions to the critics: ZBB and ABB

Regarding the rigidity of the budgets and the need for the revisions, practitioners have mainly two opposite opinions: some managers affirms that “if the budget is not revised, the document no longer represents foreseeable performance”. Others, on the other hand, suggest that “a revision destroys the basis for analyzing the gaps between actual performance and the objective to which the company committed when the budget was approved”. This kind of problem represents today the main debate for the proponents of a management without a budget (*Sponem, Lambert, 2010*).

Practitioners and academics have proposed several possible solutions to reform the budget process. Starting with 1960 there have been firstly attempts to reform the budgets, for example with the Zero Base Budget and more recently, since the 1990s, with Activity-Based Budgeting (*Berland, Ronge, 2019*).

The Zero-Based Budget is a tool for restructuring companies (*Berland, Ronge, 2019*) and was used for the first time in Texas at the Xerox Corporation and in the ‘70s first paper was published (*Badea, Dobrin, 2006*). The traditional budgeting practice becomes problematic when the company has to deal with a hostile environment or drastic challenges (currently like Covid-19, the war in Ukraine). The phrase “zero-based budgeting” does not mean that budgets are reset to zero every year. It is rather a question of helping the management to better define the objectives to be achieved, to evaluate the alternatives and the actions to be carried out and the indicators for measuring the performance (*Berland, Ronge, 2019*).

In theory, zero-based budgeting comes from the fact that the budget will not take into account all past costs as a reference (*Callaghan et al., 2014, cit. by Brîndușe, Bunget, 2021*). But, in fact, an enterprise cannot completely ignore all the costs from the past periods that are not absolutely necessary, but allocate resources based and

aligned with current strategy (*Gartner, 2020, cit. by Brîndușe, Bunget, 2021*). The company should keep only the expenses that represent the activities that can support and generate value for the company. Of course if we consider the complexity of a business and the environment it's operating, an ideal budgeting process cannot be achieved, but we can hope for the best version (*Brîndușe, Bunget, 2021*).

The Activity-Based Budgeting, on the other side, rides under the influence of the Activity-Based-Costing. ABB is in a way an ABC upside down. Resource allocation is based not only on volume drivers (the number of products manufactured or sold, which traditionally leads to establishing a budget), but also the characteristics of the products or services which have repercussions on activities organized into processes. Implementing a value creation strategy requires understanding how activities meet customer needs. Traditional budgetary control does not participate in the creation of value because it is centered on resources more than on activities (*Berland, Ronge, 2019*).

The Activity-Based Budgeting (ABB) approach focuses on the budgeted cost of the activities that are necessary to produce and sell products and services (*Horngren et al., 2012, p. 215*).

The classical budgetary control does not participate in the creation of value because it is centered on resources more than on activities. The Activity-Based Budgeting aims to transform strategic plans into activities to be implemented. We need to mention that ABB will enrich the further deviation analysis by going back to the root cause of the costs (activity drivers) and therefore provides a better understanding of deviations by identifying the inductors (*Berland, Ronge, 2019*).

3.4 Other New Controlling Instruments

The important aspect that budgets have to be more flexible and adaptable is coming from the unpredictable environment in which now the companies are operating: the life cycle of the products are shorter, prices are under pressure and customer options are changing very quickly (*Hope and Fraser, 2003a*).

Since the 90s it has been developing more alternatives to traditional budgeting, beside Zero Based Budgeting and Activity Based Budgeting. Most known are Beyond Budgeting, Advanced Budgeting and Better Budgeting. These three tools are proposing some solution to the problem brought from the traditional budgets (*Rickard, 2006*). The dissatisfaction regarding the budgeting process comes on two fronts: companies that want to abandon budgets and the others want to improve it (*Hansen et. al., 2003*).

Author *Rickards (2006)* is highlighting that the Beyond Budgeting concept has less to do with budgeting but with implementing a new management model. Beyond Budgeting is focusing on a transition from the traditional model of “production and sales” to the new model “market preview and production based on customer demands” and a self-controlling approach.

The authors *Hope and Fraser (2003 a,b)* are highlighting that in their opinion the Beyond Budgeting solution does not mean an improvement of the traditional budgeting, but actually this tool should be eliminated. The proponents of Beyond Budgeting suggest that the Balanced Scorecard should substitute the budgeting systems and become the main controlling instrument (*Rickards, 2006*).

The main principles of Beyond Budgeting are (*Rickards, 2006*):

- focusing on non-monetary performance indicators;
- firms should focus on on benchmarks oriented to external competitors;
- controlling should be based on output-oriented processes;
- an enterprise should use a dynamic, rolling approach;
- integration of the strategic planning with operational planning;
- companies should have an anticipative information system.

We also have to mention here that managers have to engage and train the employees when this kind of changes occur, otherwise the implementation will not be successful (*Becker, 2014*).

The advocates for Beyond Budgeting have not yet convinced most of the controllers and managers to adopt this approach completely. A main reason for this is the generally formulated leadership and performance principles; this means the proponents for these tools have to gain more practical experience in order to implement their ideas (*Rickards, 2006*).

The other two approaches Better Budgeting and Advanced budgeting, are not calling to a fundamentally changing economic model within the companies, but are focusing on improving the budgets efficiency.

Better Budgeting is focusing on simplifying the traditional budgeting by improving the functional aspects of it. Advanced Budgeting represents a middle way between Beyond and Better Budgeting and has following characteristics (*Rickards, 2006*):

- clear objectives for planning and budgeting originating from strategies and benchmarking;
- a simplification of the budgeting process;
- more flexible budgets by using rolling budgets and self-adjusting goals.

Advanced Budgeting makes an usage of global budgets, using both financial and non-financial indicators and replaces one year budget planning with rolling planning (*Valerian, 2018*).

Making a clear differentiation between Better Budgeting and Advanced Budgeting is difficult, the distinction between these two tools depends on the characteristics of the company that is implementing them such as complexity, planning system and dynamism of the environment (*Rickards, 2006*).

Beside the new approaches for budgeting mentioned above, there are other and new tools that, the new controlling approach, is developing and can substitute budgets or use them simultaneously.

When companies are dealing with unpredictable aspects, they are adjusting the budget targets and adopting other tools and processes that can compensate for this (*Libby, Lindsay, 2010*). We will briefly present some of these tools in the following lines.

A well known instrument is the Balanced Scorecard, which represents an integrated, strategic and holistic information system that includes a finance view, customer retention, internal processes and employees aspects. Balanced Scorecard is a guide tool for managers for the decision making process (*Rickards, 2006*); it ensures the implementation of the strategies (*Horvath & Partner, 2009, p. 298*). Benchmarking compares the internal performance of products and processes of a company, or best practices, with the competitors (*Rigby, 2001, Rickards, 2006*). The fast track is used in order to obtain new resources (*Libby, Lindsay, 2010*). Forecasting, or budget revision, consists in replanning the initial budget throughout the year, usually on a monthly base (*Sponem, Lambert, 2015*). The rolling forecast is used by companies when instead of relying on historical data for planning; companies should rely on future-oriented data, means future prognoses (*Rickards, 2006*). Target costing helps to introduce new products in line with the market; the performance measurement is a cost process-oriented approach and the process-oriented budgeting is used to develop the output-oriented budgets (*Horvath & Partner, 2009, P. 299*).

Authors *Libby T. and Lindsay M. (2010)* made a survey regarding the budgeting practices in North America and Canada companies. Respondents were asked if they are still using budgets, for control, meaning for managerial motivation and performance evaluation. The results are that 80% of the Canadian and 77% of the North America sample answered that they are using this tool for control in their entity. Further the Canadian group were asked if they were planning to make some

changes regarding the budgeting system in the next period and 46% of the respondents mentioned that they plan to adapt in the next two years.

On the other hand, when we want to emphasize the assertion that budgets cannot adapt to uncertain environment (*Hope and Fraser, 2003b*), we must evaluate first the industry in which a company operates and how quickly is needed for it to adapt in an unpredictable environment, for example the company field studied by *Hope and Fraser (2003b)* was banking where a revolutionary change was not needed (*Libby, Lindsay, 2010, p. 57*). *Lau and Tan (2012)* are actually mentioning that budgets are an essential aspect of manufacturing companies and are likely to be prevalent in these kinds of organizations.

However the budgeting process should always be connected, linked to the strategies of the company (*Kaplan and Norton, 2001*). When a budget is considered to be part of a firm's strategy? Is considered so when the budget planning is integrated with other management tools, or practices (*Shastri and Stout, 2008*).

We should not focus on traditional budgeting or beyond budgeting, better budgeting, advanced budgeting and so on but, instead try to develop a mechanism where to use more approaches together (*Libby and Lindsay, 2010*).

There is also the concept that companies have a fear of change when abandoning the budgets is being proposed, as managers are hesitating to empower employees to make decisions and subordinates are fearing to accept this responsibility in order not to disappoint the management (*Nguyen, Weigel, Hiebl, 2018*).

Other authors are also arguing that it is more expensive implementing Beyond Budgets than upgrading the existing traditional budgeting approach (*Vaznoniene and Stonciuviene, 2012*).

4. CONCLUSIONS AND FUTURE RESEARCH

Companies nowadays are facing a lot of changes, internally and externally, as a consequence they have to adapt, and simultaneously also the controlling department has to be more process oriented. This changes, this adaptation is called in the literature "new controlling". Therefore this paper aimed to present this transition, focusing on one of the main instruments that controlling operates with: the budgets. By taking into consideration these changes, we proposed the following main research question: Are the companies going to plan with or without budgets?

Beside this also other branched questions came up:

- What are the current dimensions of the budgeting system?

- Do budgets add value for the organizations?
- How satisfied are the users in working with budgets?
- Are there any critics of budgeting?
- Do we have some alternatives instead of using budgets?
- Is the approach of managing without budgets be more suitable for specific business fields?
- Are there any relationships between budgets and other controlling tools and processes?

Via a literature review we tried to answer these questions by searching and lecturing the articles and we managed to find information by using the meta-analysis methodology. Literature reviews represent the ground on which we can build up new discoveries and studies (*Woods, 2011*). Authors *Light and Pillemer (1984, p. 169, cited by Massaro et al., 2016)* are mentioning that “the need for a new research is not as great as the need for the knowledge of already existing studies”.

We presented the budgets characteristics, the main dimensions, how the authors see and define this tool. We proceed in presenting also the critics that the users can face when using this instrument and the solution that can compensate, solve the issues. This means implementing new approaches like Zero Based Budgeting, Activity Based Budgeting, Beyond Budgeting, Better Budgeting, Rolling Forecast, Benchmarking, Balanced Scorecard.

We need to understand that financial measures coming from the budgets worked very good in the industrial era, but now they are “out of step” with the current competencies that companies are trying to master currently, they are getting oriented also to nonfinancial measures when performance evaluation is needed *Lau and Tan (2012)*. Companies use financial indicators (revenues and expenses) and nonfinancial indicators, like customer satisfaction and market share (*Shastri and Stout, 2008*) by using one or more instruments presented above.

On the other hand, controllers use too many tools and are inundating the management with too much information and managers are worse informed about their company nowadays than many years ago (*Rickards, 2006*). Other authors are pointing out that managers are stating that just some key performance indicators are sufficient to manage a firm like cash flows, employee motivation, customer satisfaction (*Welch and Byrne, 2003*).

In the end is it possible to manage without budgets? Without a budget system, controlling the inventories in the manufacturing area is very hard or sometimes impossible. Without a proper planning system we would have an unclear sales planning that would lead to an unclear production planning, to unused capacities or

exceeded capacity, this could increase to an uncontrollable growth in inventories. Abandoning budgets would determine managers to be unable to provide information to the stakeholders and other parties (*Rickards, 2006*).

In conclusion, authors considered that the companies are obtaining a value-added when using the budgeting (*Libby, Lindsay, 2010*).

Most of the articles that were reviewed for this paper are conceptual articles, which means that there is a lack of empirical approaches in the literature. This means that this represents an opportunity for more research in this area of budgeting and management without budgets.

In the current literature there are still unanswered questions that can represent some future research like: how to adapt to a management without budgets with the help of the IT-experts; what is the approach of the companies that are using simultaneously budgets and other toolings like Balanced Scorecard, Benchmarking, Rolling Forecast; the risks that a company can face when is implementing the Zero Based Budgeting, Activity Based Budgeting, Beyond, Better or Advanced Budgeting approach, empirical evidence from the companies that managed to implement successfully this tools and also the most important lesson learned from the companies that failed to adapt to this new approach.

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