

Faculti Summary

<https://faculti.net/budget-development-and-use-in-small-and-medium-sized-enterprises/>

This video discusses a research study on the development and use of operating budgets in small and medium enterprises (SMEs). While operating budgets are widely recognized as critical management controls across organizations, most existing research has focused on larger companies. This video study aimed to fill that gap by examining how SMEs utilize budgets for control, evaluation, and reward purposes.

The researchers conducted in-depth interviews with executives from 12 SMEs to explore four main questions: (1) how budgets are developed (top-down or collaborative), (2) how tightly budgets are used for controlling results, (3) how they are employed for performance evaluation, and (4) how they link to reward systems or compensation.

Key findings include:

1. Most SMEs employ a collaborative approach to budget development rather than a strictly top-down method, particularly in larger SMEs that need decentralized decision-making.
2. While some SMEs use budgets tightly for control purposes, many adopt a looser approach, focusing more on the planning discipline budgets provide rather than strict control.
3. The tight use of budgets for performance evaluation is not widespread; many SMEs feel that the unpredictability of their environments makes it inappropriate to heavily link budgets to evaluations.
4. Linking budgets to compensation occurs in only a few cases, typically limited to sales staff due to similar concerns about environmental uncertainties.

Overall, the research revealed that budgets in SMEs are perceived more as flexible planning tools rather than rigid control mechanisms. The findings suggest a need for management accounting education to incorporate the distinct budgeting dynamics of SMEs, which differ significantly from the processes seen in larger organizations. The research underscores the importance of collaborative budgeting and the role of informal communication in financial management within SMEs.