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BUDGETING IN THE TIMES OF ECONOMIC UNCERTAINTY IN STARTUPS

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Abstract

Originating in the 1920s, budgeting was created to help managers facilitate cashflow and cost control (Cardos et al., 2014). During the past decades, budgeting has faced both criticism and appraisal for its importance in management control systems. Scholars such as Wallander (1999), Jensen (2001), Hope and Fraser (2003) and Blumentritt (2006) have stated their concerns about the limitations and shortcomings of traditional budgeting. The range of criticism is from slighter changes to its complete abolition. On the other hand, Horngren, Datar and Rajan (2012) have highlighted the importance of budgeting: offering the core for management system, providing a scheduling and resource allocation framework for the organization.

The purpose of this thesis is to investigate which budgeting methods startup companies are using and how globally recognized events starting from the worldwide pandemic to an economic slowdown and rising interest rates have affected budgeting in startups.

The findings of this thesis showcase the different approaches in budgeting and how it's seen in two Finnish startup companies, and what affects the economic uncertainty has caused in budgeting. Especially, raising interest rates has created a situation where venture capital funding is less available and harder to acquire. This has caused more carefulness in two target companies, but however, no changes in budgeting methods used. This can be argued to show an example of a link between budgeting and different areas of the business.

Keywords budgeting, start-up, beyond budgeting, traditional budgeting

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1. Introduction

Budgeting has been stated as an essential and important part of running a business (Horngren et al., 2012). Budgets and different budgeting methods are not a new process in organizations. They have been around for decades, born in 1920s to support managers control cashflows and costs (Cardos et al., 2014).

Budgets can be seen as very beneficial and being an integral part of a business's managerial control systems. When done thoughtfully, budgets can bring certain benefits for the company (Horngren et al., 2012):

- Enhance communication between different units within a company
- Build a framework for measuring performance
- Motivating employees and managers

Budgets have been a part of management control systems for a long period of time. Although it has been argued that budgeting still plays a major role in organizations managerial control systems (Libby & Lindsay, 2010), they have faced criticism from different perspectives.

Budgeting faces criticism for relying on old data, being unable to be adjustable and keeping up with the fast-changing business environment. For example, budgeting has been called "outmoded way of controlling" (Wallander, 1999) and "a joke" (Jensen, 2001). Arguably most severe criticism for budgeting has come from Hope and Fraser (2003) by saying that "budgeting, as most corporations practice it, should be abolished."

Blumentritt (2006) argues that budgeting and businesses operational strategies often have little to no connection. In certain organization budgeting can be perceived as a game of poker including big bets and bluffs in order to i.e., inflate odds for better sales commissions (Blumentritt, 2006).

In recent years, we have lived through a globally recognized chain of events that have affected businesses and the whole economy. First, we had a worldwide pandemic which was then

followed by an economic boost in the year 2021. After that came an economic slowdown and the biggest war in Europe since World War II in 2022.

The importance of certain aspects of budgeting have been seen increasing during economic crisis (Becker et al., 2015). This thesis focuses on how different budgeting methods are used in **startup companies** and how they might have been affected by the recent changes in macroeconomy and the overall business environment. Management control systems, which budgeting is part of, have been argued to be an important part of scaling a business beyond a certain size point (Foster & Davila, 2007).

The definition of a startup company seems to vary and can be defined in multiple different ways as there is no widely used definition of what is a startup company (Cockayne, 2019).

A way of describing a startup is as Rebecca Baldridge (2022) defines startups as "young companies founded to develop a unique product or service, bring it to market and make it irresistible and irreplaceable for customers". Paul Graham (2012) sees startup as a company that is built and designed to scale fast and states that a startup company doesn't need to seek venture funding, work on revolutionary technology nor have an exit plan.

This thesis' main purpose is to give an overview on different budgeting methods, what budgeting methods startups are using and how recent global events and economic uncertain times have shaped and affected the ways startup businesses see and use budgeting methods in their businesses in the past 3 years.

This thesis on different budgeting methods in startups and possible changes will be conducted based on these research questions:

- **What budgeting strategies and methods startups are using in general?**

- **Have startups changed or modified their budgeting strategies or methods based on these recent worldwide economic changes?**

There are already a lot of studies and literature that touch on different budgeting methods (Hansen & Mowen, 2006; Horngren, Datar & Rajan, 2018; Lalli, 2012) but less when it's compared with startup companies (Foster & Davila, 2005).

In the next chapter, these common budgeting approaches are explained more in detail, as well as budgeting in general and how it is connected to other areas in business. Thesis methodology and empirical analysis will follow literature review in the following chapters.

2. Literature of budgeting

2.1 Budgets and traditional budgeting

In this chapter, the reader will gain an understanding of what budgeting is and how it is connected to different areas of the business. A range of several widely adopted budgeting methods will be presented, with their individual advantages and disadvantages.

A budget can be defined as: “quantitative expression of a proposed plan of action by management and is an aid to coordinating what needs to be done to execute that plan” (Horngren et al., 2012, pp. 32).

Budgets are often planned and made for a specific area and activities in the organization. For example, research could have its own budget and same way sales could have its own budget. These different budgets for various areas then collectively form a financial plan for the whole organization (Hansen & Mowen, 2006).

Hansen & Mowen (2006) list some typical types of different budgets as follows:

- **Sales budget:** a projection of sales for each product or service.
- **Production budget:** a projection on how many units of products is needed in order to meet the sales goals.
- **Cash budget:** a detailed roadmap on cash sources and how it’s used.
- **Capital budget:** a budget for investments such as manufacturing equipment.
- **Operating budget:** is a budget that relates to income-producing activities in a certain organization.

- **Financial budget:** is a portion of the whole financial plan that includes cash budget, balance sheet, cash flows and capital budget.

- **Master budget:** is the financial plan that is that contains all the different budgets from different areas.

Generally, what is often called traditional budgeting means having a fixed annual budget that sets out a revenue and cost plan (Asogwa & Etim, 2017). Traditional budgeting can be seen as the first budgeting method that organizations started to adapt. Horngren, Datar & Rajan (2012) define that traditional budgeting is a quantitative expression of a certain plan usually made by management, i.e., a financial plan in support of hitting an agreed target.

Hope and Fraser (2000) argue that traditional budgeting methods are too stiff for today's fast moving and adapting economy. However, many companies are still using annual budgeting processes based on past data, mutually discussed targets and lots of different assumptions. Traditional budgeting is also argued to be too costly and time consuming for most businesses. On top of that, they can be seen not surviving today's turbulent and competitive business landscape (Neely et al., 2003; Blumentritt 2006).

On the other hand, budgeting can be seen as a crucial part of strategic planning and control. Hansen & Mowen (2006) argue that planning and controlling both rely on budgeting. Plans specify goals and the needed steps required to reach them. A budget can be used as a tool for planning that helps an entity translate its goals and strategies into operational steps that can be measured and followed.

In addition, budgets can be used in control. Setting standards and getting feedback on actual performance is part of the control process. Budgets can thus be used to compare actual results to budgeted results and, if required, to refocus operations based on that (Hansen & Mowen, 2006).

There are five widely known techniques and approaches to budgeting that can help a company with their planning and budgeting process. They are argued to be (Neely et al., 2003):

1. **Activity based budgeting**
2. **Zero base budgeting**
3. **Value based management**
4. **Profit planning**
5. **Rolling budgets and forecasts**

On top of these different budgeting methods, this thesis will also give an overview of **beyond budgeting** method.

2.2 Activity based budgeting

One additional budgeting method to traditional budgeting is activity-based budgeting (ABB). Activity-based budgeting is the process of seeing what activities are needed for the organization to derive a cost-effective budget and reach its set targets. As the name suggests, it is a quantitative expression of actions that are needed to meet set goals of the organization. Quantitative expression includes what type of work is needed, how much of work is needed and what all this work is going to cost (Lalli, 2012).

Cooper and Slagmulder (2000) argue that activity-based budgeting has two main advantages compared to traditional budgeting. ABB can be more accurate and secondly, it can produce better insights into why demand is not in line with the production volume. Lalli (2012) states that the problem with traditional budgeting is that it is based on historical data. Therefore, last year's problems and inefficiency carry on within the new budget.

2.3 Zero based budgeting

One of the pioneers of zero-based budgeting (ZBB) Peter Pyhrr argues that traditional budgeting, or often referred to as incremental budgeting creates multiple problems for company management (Pyhrr, 2012). Using a traditional budgeting approach, management is creating a

new budget primarily based on last year's budget with incremental changes. This causes concerns such as that major problems are not highlighted, difficulties in determining longer-term goals into concrete action steps and difficulty in adapting the set budget in changing situations.

Pyhrr argues that ZBB can be used as a tool to solve mentioned problems that occur when using traditional budgeting approaches. A key element of ZBB is that every activity is went through with a discerning mindset, contemplating its potential to be eliminated, reduced, kept as it is or increased. ZBB can be used for all the activities and costs that are occurring in the organization. ZBB requires organizations to review their activities and costs from output and performance point of view.

ZBB approach enables organizations to focus on alternative choices compared to their current activities and costs, focus on key problem areas, and set priorities inside the organization (Lalli 2012). The arguable downside to zero-based budgeting is the resources that are involved in the process of doing ZBB. It is expensive and time-consuming. Ogden Jr. (1978) states that a good manager would use ZBB when gains are expected to be higher than costs.

2.4 Profit planning and rolling budgets

Profit planning is a process where an organization defines a profit target and a strategy on how they intend to achieve the set target. The objective in the profit plan should be clear, realistic, and practical. Therefore, the goal can be measured, and the journey tracked. Shim & Siegel (2005) list that there are multiple ways for a unit manager increase profitability which include but are not limited to:

- Operating the unit with minimum number of employees
- Reducing operational costs
- Eliminating useless activities
- Being productive
- Improving reliability of the product or service provided

Neely, Bourne and Adams (2003) argue that profit planning appears to be not widely adopted and supports a more theoretical role. Rolling budgets on the other hand are more and more used

in organizations in efforts to help with the time-lag with traditional budgeting. As in traditional budgeting the budget is fixed to a point in time, the rolling budget is adjusted within the year and therefore can result in more accurate forecasts (Neely et al., 2003).

Rolling budgets, also known as continuous budgeting, can help to solve problems related to traditional budgeting. Frequent updates, usually monthly, keep the budget's data relevant and up to date. This can help organizations make more shift changes in the case of economic changes (Lynn & Madison, 2004; Myers 2001).

2.5 Beyond budgeting

Beyond budgeting a model that represents Hope's and Fraser's management philosophy of an alternative budgeting method to traditional budgeting which is: "a set of information-age best practices-from organization design and devolution of authority to planning and performance management that leading-edge companies are now using to respond much faster to customer demands." (Hope & Fraser 2000). It encompasses modern practice, for example, organization design, decentralized decision making, lesser authority, and improved performance management.

The Beyond budgeting model has twelve different principles that have originated from more than 25 different organizations and their experiences with more flexible budgeting approaches. These twelve principles are divided into two categories: the first 6 principles are for creating a flexible organizational structure and the latter 6 principles are for designing adaptive management processes for the organization. According to de Waal (2005) these twelve principles of a beyond-budgeting organization are:

1. **A self-governance framework:** managers are self-managing their own units.

2. **Empowered managers:** senior management lays out values ja strategic boundaries, but managers have the freedom to make decisions at their own discretion.

3. **Accountability for dynamic outcomes:** targets are set dynamically and adjusted throughout the year.

4. **Network organization:** self-managing units combined create their own entities.

5. **Market coordination:** self-managing units may use services like information and communication technologies (ICT) or human resource management (HRM) from central support units or use external support.

6. **Supportive leadership:** managers of self-managing units can make mistakes without being punished for it. Senior management gives support and mentoring for managers to achieve set goals.

7. **Relative targets:** an organization's targets aren't set for beating last year's figures but rather to beat their competitors. Managers are involved in target setting.

8. **Continuous strategy-setting:** strategy is created bottom-up and can be adapted to changing environment actively.

9. **Anticipatory systems:** at least once a quarter organization's managers are required to make forecasts that extended for more than a year ahead. These rolling forecasts are not involved with the reward system.

10. **Resources on demand:** managers of these self-managing units can allocate needed resources to the place it's most needed. For example, there are no fixed investment budgets based on last year's numbers.

11. **Fast, disturbed information:** needed information for decision making is available swiftly. The given information doesn't include unnecessary details.

12. **Relative team rewards:** an organization's rewards are based on group and individual rewards, and they are formed by the results of the self-managing units.

Based on these 12 principles it can be argued that The Beyond budgeting method is more than just budgeting. It's about making organizational changes towards a more dynamic approach. When organizations are using rolling forecasts instead of fixed yearly budgets, they can react and adapt in a changing environment. Investments do not have a fixed budget, rather they are made throughout the year as they are needed within the organization's value and strategy guidelines (de Waal 2005).

Figure 1

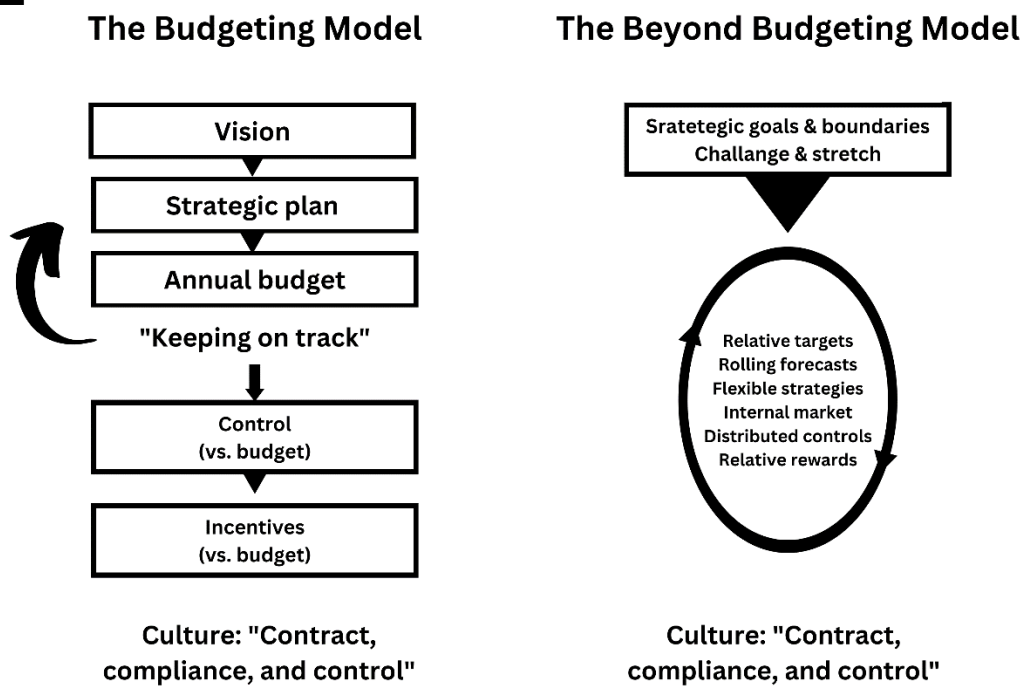

Figure 1 compares the main elements of traditional budgeting model and beyond budgeting model. (Hope and Fraser, Beyond Budgeting, 2000)

As shown in Figure 1, in the traditional budgeting model the vision, strategic plan and annual budget are created by the management itself. It doesn't involve a dialogue within a unit or between different organization units. In the beyond budgeting model, the upper management creates strategic goals and boundaries for the organization. Instead of a fixed annual budget, the managers of different units can make capital requiring decisions as they are needed throughout the year if they are operating within the organization's values and strategic goals (Hope & Fraser, 2000; de Waal, 2005)

3. Method

This thesis is done as qualitative research. According to Tenny (2022), one of the strengths of qualitative research is its capacity to analyze patterns of human behavior and show processes that could be hard to quantify.

Empirical data is gathered from Finnish startup companies. The empirical data in this thesis is based on interviews done with the chief financial officer or with the chief executive officer of the target company.

Multiple companies ranging from different sizes and industries were contacted via email to get interviews. All the contacted companies were Finland originated, with a significant number that have already established a presence in international markets. In the initial outreach email the subject of this thesis was described briefly so the interviewee had a basic understanding about the interview agenda.

In total 2 interviews were held to collect empirical data. Interviews were held through Zoom and lasted about 30 minutes each.

The interview questions were planned ahead of time and were the same for both interviews. Some of the questions were designed to be open-ended and give a possibility to expand the discussions over the boundaries of the question asked. Open-ended questions can be seen as the core of qualitative research (Tenny et al., 2022). The questions consisted of three main parts. Exact interview questions are as an attachment.

1. Basic background information about the person and the company.

2. Questions about their current budgeting and planning: what budgeting methods they are using, why they were chosen and how significant part of the business budgeting is.

3. Questions about the possible changes in the organization's budgeting during the last three years: pandemic starting in 2021 and macrolevel economic changes during the last two years: economic slowdown and historically fast interest rate hikes (Yle, 2022)

4. Empirical study

4.1 Research material and findings

In this chapter, we will go through these two interviews in detail and open findings with comparisons to budgeting literature. When analyzing empirical data through these two interviews with Finnish startups, this thesis tries to gain understanding on how these startups use budgeting in their company and how macrolevel economical changes have possibly caused changes in budgeting.

During the interviews it was stated that all the information will be used anonymously by the interviewee. For this thesis, we will name these two companies Ahven and Särki. Chosen names are solely for presentation purposes and are not an indication of company size or industry.

Target company Ahven

The company Ahven is building AI-driven and biometrics-based technologies that allow interactions in augmented computing platforms. They are focusing on creating touch-based interaction solutions with smart watches for example. Founded in 2020, the company has secured funding of over a million euros from angel investors and venture capital firms.

The interview with the company Ahven was done with one of their co-founders, who holds the role of chief executive officer. He completed his studies at Aalto University a few years ago. He has history and knowledge of budgeting from university and other past startup projects that he has been involved with. The chief executive officer stated being “very familiar” with budgeting and has built his own routines for handling budgets. He wanted to describe himself as being “very careful” with money in general and mentioned that it may affect his perspectives on corporate budgeting methods.

Before diving into budgeting related interview questions, he wanted to set a background picture before we started discussing budgeting. He stated that their company culture has a lot to do with their budgeting. They have listed values for the company and all the employees comply with these set values. The chief executive officer stated that their company culture is "caring" with money, so they don't need strict budgeting "rules" to be used. This resonates with the beyond budgeting principle of upper management creating values and then managers and employees are free to make decisions under these set values (de Waal, 2005).

The chief executive officer gave an example of purchasing a set of new headphones for yourself. In Ahven any employee can go and buy new headphones, no questions asked. On the other hand, the chief executive officer said that not having strict budgeting rules for employees has its own downsides too. He stated that due to the careful culture with spending in Ahven, he has seen that obvious purchases, such as new headphones, can take months as employees can be too caring from time to time. He thinks that this is one of the possible downsides of not having a strict and hierarchical spending culture.

When asked about Ahven's current budgeting methods and how they form their budgets, the chief executive officer describes that he by himself is doing all the work when it comes to budgeting in their company. He states that he is not using any software or spreadsheets: all the information related to budgeting is in his head. One of the reasons according to the chief executive officer is that they don't feel the need for more structured ways to make budgets. He says that their revenue is predictable at this point, and he can manage all the numbers needed in daily operations with "a hunch".

"Freedom in budgeting is a sign of the fact that employees acknowledge the resources that are available. It's a sign of transparent working environment" - Ahven's CEO

However, the chief executive officer mentioned that they do use an accounting software called "Procountor" as they report key metrics for the investors. In addition, he also said that Ahven's current size and situation also matters in terms of not having more structured ways of budgeting at this moment. He mentioned that when the company grows it will need more structured budgeting and forecasting models, and it's recognized in the company.

When it comes to current budgeting methods, the CEO seemed to appreciate flexibility, culture, and freedom within certain values:

"I see that, especially, in early-stage startups control mechanisms and strictly following certain numbers is either lack of knowledge or trust. I think budgeting methods also follow the knowledge of the CFO or the person in charge of managing the budgets. Less knowledge or trust usually means more control. " - Ahven's CEO

The CEO mentioned that one of the main reasons why they have chosen to approach budgeting this way relies to the 80/20 rule also known as "Pareto Principle". Pareto Principle's roots are tied back to an Italian economist Vilfredo Pareto who created a mathematical formula to describe uneven distribution of wealth in this country. His mathematical model described that 80% of wealth is owned by 20% of the population. In the 1940s, this mathematical formula was initially inaccurately interpreted by Dr. Juran. "The principle is that 20 percent of something always are responsible for 80 percent of the results" – and that became to be known as the "80/20"-rule (Rehn, 2005).

In this interview, the CEO referred to the 80/20-rule when asked "Why this approach to budgeting was chosen?". According to the CEO, they want to prioritize the things they focus on, and spend recourses on. It could be said that a more detailed approach to budgeting at this stage is not part of that 20%.

"It doesn't make sense to update numbers on Excel all the time" - Ahven's CEO

The second part of this interview focused on discussion related to possible changes in budgeting due to recent macrolevel economic changes. With this, we are trying to get to the bottom of the second research question: *have startups changed or modified their budgeting strategies or methods based on these recent worldwide economic changes?*

As stated above, Ahven was founded in 2020 so coronavirus pandemic didn't affect their business significantly. In addition, the CEO said that their industry also had an effect during that time. They saw their business as a long-term play and the biggest coronavirus "shock" was

already over at that point. The CEO described that the first two years were very bullish, and they had great success businesswise and funding wise during the years 2020 and 2021. According to the CEO, the first significant changes occurred when interest rates started to rise in 2022.

"When interest rates started to rise, that had noticeable effects for us. When interest rates rise, that makes the bonds more attractive investments. That has made venture capital firms reconsider their investment opportunities and money started to rollover to bonds, for example. In concrete, this situation has caused the fact that VC funding is harder to get. Supply shrinks, but demand is rising constantly. - Ahven's CEO

The CEO wouldn't agree that business itself has gotten harder during these economic changes, but funding certainly has. He stated that since funding has gotten harder to get and also to predict the next round of funding, it has had effects on budgeting side of things.

He described two major differences compared to the time when VC funding was more widely available:

1) **Psychological effect on spending money inside the company:** as the future is harder to predict, it has meant more caring with spending.

2) **Recruitment principles got tighter:** this is aligned with the extra caring with spending.

The CEO also added that these economic changes have not made them think of other ways to budget their available funds, different budgeting methods, nor more detailed budgeting approaches.

"The biggest difference is not related to budgeting methods itself, but more with the mindset of being even more careful with spending since the funding opportunities have gotten harder. Therefore, you could say that these economic changes have certainly influenced budgeting, but not the budgeting methods itself." - Ahven's CEO

Target company Särki

The second interview was done with the CEO of a company that provides biopsy solutions for hospital labs to run in-house. Their mission is to streamline and expand treatment options for cancer patients. In this thesis, we will name this company Särki.

Särki was founded in 2021 and has already raised millions of euros in funding. The CEO of Särki has a long history as a startup entrepreneur and has sold his previous startup company successfully after growing that into a multimillion-euro business. In the target company Särki, the CEO is responsible for a variety of different things.

The CEO stated that he has always had a certain way of approaching budgeting in all his current and past startup projects. Budgets have always been done from bottom to up. In the CEO's opinion, this means that budgets start from the different units inside of the company. The upper management outlines certain values and the bigger picture for the rest of the company. Then according to the CEO, for example every salesman and unit manager makes their own budgets so they can answer these questions:

1) What targets do they want to achieve in the coming months?

2) What do they need to achieve these targets?

The CEO described their bottom-to-up approach as follows: every salesperson sets their own target and budget for the year. All these targets and budgets are added up, and that makes the budget for that specific unit. All the unit budgets are summed up, and that becomes the whole budget for the firm. This total budget was subject to potential slight adjustments with minor details before ultimately becoming the budgetary framework for the organization.

It could be said that there are similarities between beyond budgeting methods principles and the way that the CEO described target company Särki's approach to budgeting. Doing budgets bottom to up is part of beyond budgeting method, and one of the twelve principles (de Waal

2005). It could be therefore argued that the target company uses principles from the beyond budgeting method in their budgeting.

The CEO sees budgeting as a centric part of the Särki company. It involves almost all the employees in the company and does link to many different parts of the overall business.

"Upper management, such as CEO or CFO, they cannot know the reality as well as, for example, salesperson can. That's why it is vitally important that the budget is done bottom to up. Employees can set realistic targets because they know what they can achieve. They know what it would require hitting their own targets. Budgeting isn't just about printing numbers on paper or Excel spreadsheet and then just trying to hit them. Budgeting is a great tool to have a conversation for example about the targets: why we didn't our targets last quarter or why we did 15% better than we expected. It creates motivation for the employees. Budgeting is way more than just 'budgeting' in my opinion." - CEO of Särki

According to the CEO, a budget isn't a reason to do something or not to do something. It's there to guide conversations around the different segments of the business. He stated that he has always felt that budgeting is a critical part of running a business, especially startup business due to "it's nature."

The target company Särki does make an annual budget that they then update at least once during the year, usually in the summer according to the CEO. He stated that it's almost "impossible" to foresee longer than 6-month time periods, especially in startup environment where things happen and change so rapidly. A budget gives the employees and management an anchor point that they can then measure with rolling forecasting. There the main numbers are followed and updated monthly.

The CEO perceives that efforts and resources dedicated to budgeting are worth it with a great multiplier.

"The downside of emphasizing budgeting is that it takes a lot of time and resources to do so. It takes a lot of work, discussions, and Excel time to do a proper bottom to up budget in

company of our size. But I have always said and I'm still saying that it pays it back with a great multiplier. Doing a bottom to up budget enables discussions to happen that probably wouldn't otherwise happen. - CEO of Särki

Särki was founded in 2021 and according to the CEO, coronavirus pandemic didn't affect their business nor budgeting. He mentioned that recent economic changes that have happened worldwide have had an effect on their company.

As the interest rates have risen, the runaway of the budget must be longer since funding is harder than previously. The budget must hold on for a longer period. He mentioned that their first funding round as they were starting out and now in 2023 there is a "recognizable" difference on how hard it is to get more funding.

The CEO stated that these economic changes have not had any effect on budgeting methods itself. He emphasized that funds will be managed more carefully than before, purely because funding is harder to get, which makes the future harder to predict.

"Risen interest rates and economic slowdown doesn't have any effects on budgeting methods but it does mean more careful examination of our costs and how we are spending money. It brings more carefulness to our budgeting overall. Since it's harder to get funding, it brings up the importance of forecasting even more." - CEO of Särki

At the end of the interview, the CEO wanted to add that he sees budgeting as a ball that can roll in either direction: good or bad.

"The culture in the company is the most important thing. The people and the team that you are working with towards a mutual goal. If budgeting is done poorly, it can cause a lot of negative effects on the company culture. Budgeting should be a topic and thing that is discussed very openly between people no matter whether you're the owner or employee." - CEO of Särki

4.2 Discussion

It can be said that both target companies of this thesis have similarities in their approach to budgeting. According to this data from interviews, both Ahven and Särki are found to operate without strictly following and trusting the annual budget. It was mentioned that Särki makes an annual budget but uses it rather as a basis for whole budgeting discussions rather than following it strictly throughout the year.

The perception of budgeting and how budgeting practices are implemented appear to be related to the growth of the startup company. Budgeting serves different reasons depending on the phase of the startup company (Foster & Davila, 2005). This same observation came from both CEOs when they discussed the importance and the role of budgeting in their companies. CEO of Ahven said that they have recognized the situation with the company growth, and more detailed budgeting mechanisms are needed with the future growth.

Both CEOs emphasized the importance of culture in the organization, open discussions between employees and transparency in budgeting in their interview answers. Culture and transparency were noted in the empirical data which resonates with the beyond budgeting philosophy (Hope & Fraser, 2000; de Waal, 2005). On top of those two, there were multiple other factors also resonating with the beyond budgeting philosophy. Both target companies seemed to lean in the same direction in terms of their budgeting philosophies. Both target companies seemed to emphasize a more dynamic approach to budgeting.

However, some differences were noted as well. Target company Ahven stated not having strict budgeting mechanisms in place and most of the budgeting related tasks were done in the mind of the CEO. Särki on the other hand did have an annual budget as a base and emphasized its importance. Arguably Särki's approach can be considered as a mix of different budgeting methods. Especially, traditional budgeting and beyond budgeting.

Särki's CEO mentioned monthly forecasts and how they are an essential part of their operations. Based on this monthly updated data, they can make changes on their budget,

according to the CEO. As Lynn and Madison (2004) and Myers (2001) described, rolling budget helps to make better decisions since updating your budget other keeps the data accurate.

One aim of this thesis was to study whether recent global economic events have caused or been part of changes in budgeting methods in startup companies. Based on the empirical data, neither one of the target companies reported having made changes to their budgeting methods due to uncertain economic situations. However, this doesn't automatically mean that this is a broader phenomenon. Empirical data size in this thesis is limited. Examples of possible affecting factors include, but are not limited to company industry, size, and personal preferences.

Both target companies reported that rising interest rates had affected their runway projections since venture funding is less available and harder to acquire. This has been creating more carefulness in budgeting and underlining the importance of detailed forecasting. Bringing more carefulness to budgeting could be related to the zero-based budgeting method where every activity and cost is inspected to see whether it could be reduced or eliminated altogether.

5. Conclusions

The aim of this thesis was to give an overview on generally known budgeting methods, how startups are using them and what possible changes have happened in startup budgeting due to economic changes in the last 3 years.

Concluding budgeting literature with the empirical data from two interviews with startup company CEOs indicate that there are many ways to approach budgeting. There were notable similarities with the budgeting literature and the empirical data from both target companies.

Based on the empirical data, it seems that budgeting is a centric part of a startup business. One thing to mention in both interviews was the fact that both mentioned the funding and investor part of the budgeting. In startups especially, budgeting may be seen as an important tool with current and potential future investors. Current investors want to know where the company is at this moment, and future investors want to know the potential for their investment.

One thing to mention from both interviews was the fact that both mentioned that startup's size and situation matters. In Ahven, the CEO stated to handle budgeting without detailed approach or spreadsheet calculations at this company state. They, however, have noted this, and are looking to create a more detailed and structured approach in the future.

Overall, empirical data from two target companies may indicate that startup companies overall tend to see budgeting with more dynamically and comply more with the beyond budgeting principles than with traditional budgeting.

One of the aims of this thesis was to investigate if recent global economic changes from pandemic to economic slowdown and rising interest rates have affected startups budgeting methods. In these two target companies, these economic changes appear to have no affect on the budgeting methods itself. Both target companies reported that, especially rising interest rates have affected their budgeting in a sense of bringing more carefulness to budgeting. Both one of the target companies mentioned that budget runway must last longer and forecasting the future is harder, therefore, forecasting must be emphasized even more.

It can be argued that many things matter when we are analyzing organizations budgeting methods. The person's background, company status, industry and the overall culture in the organization seem to have a part in the mix. All these matters were stated in the empirical data from the target companies.

On the other hand, these mentioned things are in fact one of the limitations of this study. Due to the large number of variables, empirical data from two different size startups isn't enough to make final conclusions on budgeting in startups and their possible changes in the last years.

There could be interesting topics for further research to be made in the startup budgeting space. Since budgeting as a topic considerable broad and connects to many parts of running a business, it would be interesting to include more startups in the study and do even more in-depth comparison.

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Figures

Figure 1

Hope, J., & Fraser, R. (2000). Beyond budgeting. Strategic Finance, 82(4), 30-35. Available at: https://www.proquest.com/scholarly-journals/beyond-budgeting/docview/229739011/se-2

Appendices

Appendix A:

Interview questions

What budgeting method do you use?

Why have you chosen this/these?

What do you consider to be the strengths of the budgeting method?

What do you consider to be the weaknesses of the budgeting method?

What is the role of budgeting in the planning process in your company?

- How big a role does budgeting play in your company?

Is budgeting part of the strategy implementation process? How is it linked to strategy? Does the budget reflect, for example, targets and their achievement?

Is budgeting seen as a key element of business execution?

- Why not/yes?

Have different budgeting methods been tried out?

- If so, what differences have been observed?
    - Why was it decided to change in the first place?
    - If not tried, has it been considered? Why?

Have the budgeting methods been affected by Covid19 or/and economic slowdown starting in 2021?

- How might they have been affected? What factors have influenced them?