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# **Social capital and the budgeting process**

A thesis

submitted in fulfilment

of the requirements for the degree

of

**Doctor of Philosophy in Accounting**

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by

**Denise M. Frost**



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## Abstract

This thesis arose out of a previous study of budgeting practices carried out at a not-for-profit church. This initial study had found that relationships played an important role in budgeting practices. Interviewees carried out their budgetary tasks in a cooperative, sometimes sacrificial manner. This relationship-based approach to budgeting was inconsistent with conventional approaches to budgeting. It became apparent that budgeting practices in this church could be explained by social capital theory, and that budgeting could be viewed as a social phenomenon.

I began to question whether considering budgeting as a social process might also apply to profit-orientated organisations. As part of this thesis, I approached two different for-profit organisations: an entertainment centre; and, a science testing laboratory. Along with the church examined previously, both of these organisations agreed to participate in this investigation into the social aspects of their budgeting processes.

An interpretive methodology was adopted to study budgeting practices from the viewpoint of managers. Social capital was a sensitising theoretical perspective, and was viewed as a 'skeletal theory'; in particular, I was drawn to a model of social capital proposed by Nahapiet and Ghoshal (1998). Nahapiet and Ghoshal's (1998) social capital framework was chosen as it was pertinent to examining the influence of social capital on the budgeting process. It came as a surprise to find that elements of Nahapiet and Ghoshal's framework were in evidence in all three organisations. In the three case study organisations, budgeting was found to be a social process which can be explained by social capital theory.

In contrast to the beyond budgeting proponents, who claim budgeting is redundant, this thesis has found that the budgeting process constitutes an investment of managers' time and energy, because it encourages and promotes social capital. The budgeting process brought managers together to work cooperatively towards a commonly understood goal. Budgeting encouraged social interaction and fostered relationship building.

Organisational norms and values were reinforced. Despite the differences between the three organisations, the common feature was that the budgeting process encouraged and reinforced social capital.

This thesis has implications for other researchers. It provides a new insight into budgeting. It contributes to the qualitative budgeting literature by providing a contemporary view of the way social forces influence the budgeting process. It advances the literature on church budgeting. It adds to the social capital literature by adapting Nahapiet and Ghoshal's (1998) framework of social capital to a context not previously studied – the budgeting process. There are implications for policymakers involved in setting budget-related policy in organisations, and for practitioners, as this thesis highlights the importance of the social side of the budgeting process.

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# 1. Introduction

The budgeting literature is broad, diverse, and has been studied from a number of theoretical perspectives (Covaleski, Evans, Luft, & Shields, 2003). Nevertheless, there appears to be no commonly accepted theory that explains budgeting processes in an organisation. Studies of the budgeting process in organisations often emphasise contingency theory, arguing that “there is no universally ‘best’ design that is suitable for all circumstances” (Wilson & Chua, 1993, p. 52). Instead, the budgeting system that suits an organisation depends on the organisational context.

Boland and Pondy (1983) argue that accounting, and by implication budgeting, is both a natural and a rational process, and that both processes are needed in an organisation. However, management accounting textbooks tend to focus on the rational process, that is, on normative and technical aspects of budgeting. The natural, qualitative aspects of budgeting have received less attention. With the exception of Chenhall, Hall, and Smith (2010, 2012), and Vieira, Ha, and O’Dwyer (2013), the concept and theory of social capital receives no mention in the budgeting literature. This thesis examines the possible contribution of social capital theory to explaining social, or natural, aspects of the budgeting process. In this thesis, social capital is seen to consist of three dimensions (Nahapiet & Ghoshal, 1998): a structural dimension; a relational dimension; and, a shared context dimension.

This chapter begins by outlining how this thesis came about, and how my interest in social capital and budgeting led to the posing of three research questions. The methodology and method used in this thesis to answer these research questions are presented in section 1.2. The main findings are summarised in section 1.3, and, in section 1.4, the contribution of this thesis to theory, practice, policy, and education are outlined. The chapter ends in section 1.5, which presents an overview of each of the eight chapters in this thesis.

## 1.1 The Genesis of this Thesis and Research Questions

This thesis arose out of a qualitative research project that began while I was teaching at a tertiary institution in New Zealand. The project entailed examining budgeting practices at a not-for-profit organisation. In this instance, a church was studied. Analysis of the interview data gathered for that investigation indicated that relationships played a major role in the budgeting process and, thus, I became aware of the possibility that social capital played a part in the budgeting process at the church.

The process of writing up the findings from the not-for-profit church - and presenting them at two conferences - both stimulated and consolidated my interest in social capital in the budgeting process of organisations. I began to reflect on the importance of social capital in influencing the budgeting process in for-profit organisations and pondered whether financial bonuses, often attached to budget-related key performance indicators (KPIs), influenced social capital during the budgeting process in profit-orientated companies. As a result, I decided to examine the influence of social capital on budgeting using three case study organisations, one being the church already mentioned.

A search of the literature found that, while there was a large body of literature on both the subject of budgeting and the topic of social capital, the literature examining the influence of social capital in the context of budgeting was sparse. Just two papers were located on the topic of social capital and budgeting in organisations, i.e., Chenhall et al. (2010), and Vieira et al. (2013). Chenhall et al. (2010) considers how social capital influences management control systems (MCS) in an Australian nongovernment organisation. In their study linking MCS and social capital, they discuss budgeting indirectly, as a component of a MCS. Vieira et al. (2013) investigates the interplay between MCS and social capital in a Vietnamese social enterprise. Similar to Chenhall et al. (2010), Vieira et al. (2013) address budgeting indirectly, that is, as a component of a MCS. Neither of these papers examined the influence of social capital on the budgeting *process* of an organisation, revealing a gap in the literature.

Consequently, this thesis seeks to examine how social capital influences the planning and control of operating and capital expenditure budgets. Accordingly, three research questions were posed:

1. Does social capital influence the budgeting process in an organisation?
2. Does the budgeting process influence social capital in an organisation?
3. Are there any differences in the way social capital manifests itself in the budgeting process across the three case study organisations?

### **1.1.1 Definitions.**

As this thesis studies social capital, and its influence on the budgeting process (or vice versa), the two terms 'social capital' and the 'budgeting process' are defined. Social capital is defined as:

The benefit(s) that arise from meaningful connections between people, supportive working relationships, norms, values, and a shared context that makes it easy for people to work together.

This is a 'working definition', and is discussed in more depth in section 3.3.1.2.

The budgeting process is defined as:

The process of budget setting (planning), budget monitoring (control), and actions taken by managers to execute the budget and meet budget targets.

This notion that the budgeting process includes managers' actions is discussed more fully in section 3.3.1.3.

In the remainder of this chapter, and in chapters two (the literature review), and three (the methodology chapter), I refer to social capital influencing the budgeting process. However, as indicated in the research questions, the budgeting process may influence social capital in an organisation. The

next section outlines the methodology, method, and theoretical framework adopted to answer the research questions.

## **1.2 Methodology, Methods, and Theoretical Framework**

I adopted a qualitative, multiple-site case study underpinned by an interpretive methodology. The case study method allowed for a detailed study of budgeting in each organisation, and took into consideration the economic, historical, organisational, and social context (Scapens, 1990) within which each organisation operated. An interpretive methodology (Chua, 1986) was considered to be congruous with the subjective nature of social capital, and assisted in understanding social capital from the subjective viewpoint of managers involved in budgeting. Data were collected primarily through interviews, supplemented by documentary evidence obtained from each organisation, its website, and from local newspapers. The choice of interviews to collect data was consistent with the interpretive paradigm, as this method gathered information about interviewees' subjective views (Hopper & Powell, 1985) of social capital.

I considered that Nahapiet and Ghoshal's (1998) framework of social capital was suited to studying social capital in the context of the budgeting process. Nahapiet and Ghoshal's (1998) seminal framework has proved successful in analysing social capital in a business context (Lee, 2009), and has been widely cited in the social capital literature. Nahapiet and Ghoshal's framework has three dimensions: a structural dimension; a relational dimension; and a cognitive dimension. However, the framework required some adaptation, as it was developed in the context of the creating and sharing of intellectual capital, not budgeting. Thus, an adapted framework was developed to incorporate elements from both Nahapiet and Ghoshal's (1998) framework, and social capital theory. I retained Nahapiet and Ghoshal's (1998) three dimensions of social capital, but renamed the cognitive dimension 'shared context.' The structural dimension was expanded to include bridging and bonding social capital (Putnam, 2000), and physical spaces for people to connect (Cohen & Prusak, 2001). A shared view (a shared worldview, or a shared way of

thinking and operating), replaced shared narratives in the shared context dimension. The adapted framework was then used to develop the interview questions.

Three organisations agreed to participate in the study: a not-for-profit church; a private company; and a public company. Managers involved in the budgeting process in each organisation were identified, and 42 interviews were carried out over a 16-month period from May 2012 to August 2013. One follow-up interview took place in November 2015. The interviews were transcribed and Saldana's (2013) method of coding was adopted. The coded interview transcripts were entered into *NVivo*. I used Bazeley's (2013) 'describe, compare, relate' strategy to analyse the data and develop themes. The themes that emerged from each of the three organisations were written up as case studies. Themes identified in each organisation were compared across all three organisations, and similarities and differences were sought.

### **1.3 The Findings from this Thesis**

The most important finding was that in all three organisations (the church, the private company, and the public company) budgeting was found to be a social process that can be explained by social capital theory. In the three organisations, the budgeting process brought managers together to work towards a commonly understood goal. It encouraged social interaction and fostered relationship building, leading managers to work cooperatively towards a commonly understood goal. It reinforced organisational norms and values, which built a foundation for teamwork. This teamwork led to managers' working together to achieve a commonly understood goal. Despite the differences between the three case study organisations, the common feature was that the budgeting process built and reinforced social capital.

### **1.4 The Contribution of this Thesis**

This thesis contributes to both the budgeting literature and the social capital literature. It begins to fill a gap on how social capital can influence

the budgeting process. It contributes to the qualitative budgeting literature by providing a contemporary view of the way social forces influence the budgeting process. It also contributes to the sparse case-based, qualitative research literature on budgeting in the private and voluntary sectors. It adds to the literature on budgeting practices in a church. Furthermore, it provides a new perspective on budgeting, most specifically that budgeting is a social process that can be explained by social capital theory. In this thesis, Nahapiet and Ghoshal's 1998 framework of social capital has been adapted and applied to a context not previously studied, i.e., the budgeting process. This study has implications for practitioners and policymakers, as it highlights the importance of the social side of budgeting in organisations. Educators can learn from these findings, and draw students' attention to social aspects of the budgeting process. The following section provides an overview of the eight chapters in this thesis.

## **1.5 Organisation of this Thesis**

This chapter introduced the thesis, and outlined how the genesis of the thesis came about. The gap in the social capital literature and the budgeting literature which this thesis seeks to begin to fill were explained, and three research questions were posed. The methodology, methods, and theoretical framework used to answer the research questions were outlined. The main findings of the thesis were presented, followed by a discussion on how the thesis contributes to theory, practice, policy, and education.

Chapter two examines the relevant literature on budgeting, trust and budgeting, and social capital. It identifies a gap in both the budgeting literature and the social capital literature in terms of how social capital influences the budgeting process in an organisation.

Chapter three outlines the methodology, method, data collection, and data analysis approaches used to answer the research questions in more depth. It also introduces social capital theory as the theoretical basis underpinning this thesis, and examines how social capital theory has been

adapted for the purpose of investigating the influence of social capital on the budgeting process.

Chapters four to six present the findings on how social capital influenced the budgeting process in the not-for-profit church, the private company, and the public company respectively. Each of the three findings chapters is written up as a case study and the literature relevant to each organisation is integrated into each of the findings chapters. In chapter seven, the findings from chapters four to six are compared, looking for similarities and differences, and the literature relevant to all three organisations is discussed.

Chapter eight concludes the thesis by summarising the key findings. The contribution of this thesis to the social capital literature, the budgeting literature, practice, education, and policy are examined. Limitations of the thesis are outlined, and future research opportunities are explored.

## **2. Literature Review**

### **2.1 Introduction**

Three strands of literature relating to social capital in the budgeting process of an organisation are examined in this chapter. As this thesis considers budgeting, aspects of the budgeting literature relevant to a social capital perspective are addressed. Second, the literature on trust and budgeting is explored. This literature is relevant, as trust is a feature of social capital. Consideration of it is, therefore, placed after the literature on budgeting as it provides a link between budgeting and social capital. Last, literature on social capital is reviewed. Here the review has been confined to aspects of the topic that directly relate to this thesis.

### **2.2 Budgeting**

Budgeting has been described as “the eyes and the ears” of an organisation (Argyris, 1952, p. 6). Every decision made has financial implications that affect the budget. Metaphorically budgeting can be compared to a game of bridge. “First comes the bidding: the standard-setting process. Then comes the actual playing: trying to accomplish the bid” (Hofstede, 1968, p. 190). The bidding, or standard setting process, represents the planning function of budgeting, whilst accomplishing the bid is akin to the control or monitoring function. Both budgeting functions are considered in this thesis.

This section begins by positioning my qualitative research in the budgeting literature. Studies carried out in the 1950s, 1960s and 1970s focused on social aspects of budgeting, and were either entirely qualitative, for example, Argyris (1952), Lowe and Shaw (1968), and Schiff and Lewin (1974), or contained a qualitative element, for instance, Hofstede (1968), Hopwood, (1972), and Otley (1978). Although these earlier studies were conducted a number of decades ago, their findings are still relevant in a contemporary setting as they pertain to human behaviour.

Since Otley (1978), most of the research into budgeting has been quantitative in nature. These studies take a positivistic approach and seek to find relationships between budgeting and other variables such as performance. Such studies gather data from questionnaires and use statistics to analyse the results. This emphasis on quantitative studies has been to the detriment of theory building (Briers & Hirst, 1990; Otley & Fakiolas, 2000) and qualitative inquiry. Indeed, even as far back as Hopwood (1973), there have been calls for a study of the “wider human and social factors” (p. 91) that influence the use of budgets in organisations. More recently, Otley and Pollanen (2000) suggested the control aspect of budgeting could be better understood using “more intensive studies of single organizations aimed at elucidating the impact of different accounting control practices within their wider context” (p. 495). Along the same lines, Briers and Hirst (1990) have called for qualitative, in-depth case studies as a way forward to “provide valid information about confidential and sensitive variables such as those involving political, irrational and/or dysfunctional behaviours” (p. 392). Likewise, Noeverman, Koene, and Williams (2005) recommend qualitative, in-depth case studies in a single organisation to collect information on evaluative styles and their behavioural consequences. By using case studies to explore social capital in the budgeting process, my research provides a contemporary insight into social and human factors influencing the budgeting process. It also contributes to the sparse literature of contemporary case-based qualitative studies, particularly in the private and voluntary sectors, arising from an overemphasis on quantitative techniques.

This section of the chapter covers five areas relevant to budgeting from a social capital perspective: (1) participation in the budgeting process; (2) budgetary bias; (3) performance evaluation; (4) the influence of organisational politics; and, (5) the influence of organisational culture. The section ends with a note on ‘beyond budgeting.’

### **2.2.1 Participation.**

Studies of participation in budget setting have focused on the effect of participation on the performance of individual managers. Although these were behavioural, positivistic studies that did not include social aspects, their findings can, nevertheless, relate to the broader involvement of people in the budgeting process, and thus they have relevance to social capital and the budgetary process. Whilst there have been conflicting results from studies investigating the effect of participation on budgeting (e.g., Brownell, 1982b; Derfuss, 2009; Greenberg, Greenberg, & Nouri, 1994; Kren & Liao, 1988; Mah'd, Al-Khadash, Idris, & Ramadan, 2013; Parker, Ferris, & Otley, 1989), results from two meta-analysis studies (Derfuss, 2009; Greenberg et al., 1994) indicate budgetary participation has a beneficial influence on performance. Subordinate managers who participate in the standard setting process are more likely to accept and internalise budget standards, and are more likely to be motivated to achieve them (Parker et al., 1989). Standards tailor-made for a manager that are 'tight yet attainable' are usually the most effective (Chong & Johnson, 2007; Parker et al., 1989; Su, 2010). However, the process of standard setting involves a degree of tension, particularly if managers have budget-related KPIs and financial incentives. Managers may introduce budgetary bias to increase the likelihood of achieving their KPIs and bonuses.

### **2.2.2 Budgetary bias.**

Budgetary bias, defined as "the extent to which a forecaster adjusts his [sic] forecast due to his [sic] own personal interests and perceptions and independently of factors which might influence the actual result" (Lowe & Shaw, 1968, p. 306), can be divided into two components: budgetary slack and upward bias (Lukka, 1988). Budgetary slack, the most common form of budgetary bias, is deliberately created when revenue forecasts are underestimated, and/or costs are overestimated (Schiff & Lewin, 1970; Wilson & Chua, 1993). Slack is used as a buffer against uncertainty (Davila & Wouters, 2005; Hilton, 2011; Onsi, 1973; Wilson & Chua, 1993),

and unpredictability (Dunk & Perera, 1997), against management requests for cost savings (Prendergast, 1997), to compensate for expected budget cuts (Hilton, 2011), to impress superiors (Hilton, 2011), and to simultaneously satisfy organisational and personal goals (Lowe & Shaw, 1968; Schiff & Lewin, 1974). Evidence indicates the use of slack by managers is relatively common (Libby & Lindsay, 2010; Onsi, 1973; Prendergast, 1997). Senior management may introduce 'counter-bias' to eliminate bias they perceive has been built into subordinate managers' budgets (Hyvonen & Jarvinen, 2006; Lowe & Shaw, 1968; Lukka, 1988). Counter-bias is defined by Hyvonen and Jarvinen (2006) as "an attempt by a superior to eliminate bias in a subordinate's budget with an offsetting bias" (p. 11). The ability of superiors to detect slack in subordinates' budgets has been found to have a negative influence on the inclination of subordinates to build slack into their budgets (Merchant, 1985). Empirical studies examining participation and budgetary slack have yielded mixed results. Compare, for example, Davila and Wouters (2005), Lukka (1988), and Prendergast (1997) who argue that subordinates who participate in setting targets have more opportunity to create slack, with Dunk and Perera (1997), Merchant (1985), and Onsi (1973) who report that participation reduces the propensity of managers to create slack. Once budgetary standards have been set, the performance of subordinate managers is periodically evaluated against the standards.

### **2.2.3 Performance evaluation.**

Performance evaluation concerns the control/monitoring aspect of budgeting. In his seminal study, Hopwood (1972) was the first to systematically study the role of accounting information in performance evaluation. He sought to understand how accounting data are used by managers in managerial performance evaluations. Otley's 1978 study on the use of budgets in the evaluation of managerial performance is also significant as his study provided a foundation for subsequent quantitative work. Both Hopwood's (1972), and Otley's (1978) studies have implications for social capital, and it is important to understand the two studies to appreciate their impact on social capital.

Hopwood (1972) focused on the role of cost centre heads in the budgeting process of a manufacturing division of an integrated steelworks (Otley & Pollanen, 2000) in Chicago in the United States. He identified four performance evaluation styles operating in the organisation.<sup>1</sup> The first, a *budget constrained* style, focused on the managers' ability "to continually meet the budget on a short-term basis" (Hopwood, 1972, p. 160). In this style, performance evaluation is entirely budget-based, and managers are deemed to be performing poorly if they fail to meet the budget. In the second style, a *profit conscious* style, importance is placed on increasing the long-term general effectiveness of the cost centre. There is also an emphasis on minimising costs. Accounting information and budget variances are seen as useful, but are supplemented with other sources of information for performance evaluation purposes. A *budget profit* style, the third style identified, occurs when both meeting the budget and increasing the long-term general effectiveness of the unit are important. Lastly, with the *nonaccounting* style, accounting data are deemed to be "relatively unimportant" (Hopwood, 1972, p. 160) in the cost centre heads' evaluation.

The validity of Hopwood's results was tested by Otley (1978) who replicated and extended Hopwood's work (Briers & Hirst, 1990) in a different location. Otley's research was carried out in the United Kingdom's nationally owned coal industry (Otley & Pollanen, 2000). This organisation had geographically dispersed, independent profit centres. Otley's results differed from those of Hopwood (1972). Whereas Hopwood found that an emphasis on the budget for performance evaluation purposes led to job-related tension, Otley (1978) reported a contrary result, specifically that "the use of a budget-orientated style of evaluation did not lead to high levels of job- and budget-related tension" (p. 142). Rather, job-related tension occurred when there was a disagreement over the

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<sup>1</sup> He later dropped the budget-profit category and reorganised the performance evaluation styles into three categories.

setting of budgets, or over the way performance was evaluated, and was not associated with a certain performance evaluation style (Otley, 1978).

Hopwood's (1972), and Otley's (1978) studies have four implications for this thesis. First, Hopwood (1972) devoted much of his attention to the budget constrained style of performance evaluation. Although Otley could not replicate Hopwood's results, Hopwood's findings remain valid, with both Argyris (1952) and Hofstede (1968) noting similar trends.

Furthermore, Hopwood's (1972) budget constrained style, with its associated job-related tension, poor working relationships, distrust, rivalry, manipulative behaviour, and its negative influence on cooperation, mutual help and assistance, has the potential to negatively influence social capital in the workplace. In contrast, the profit conscious and nonaccounting styles were found by Hopwood (1974)<sup>2</sup> to be associated with a warm and friendly work environment that builds trust and respect, where the superior "tries to maintain warm and personal relationships with his [sic] subordinates" (Hopwood, 1974, p. 486). These features of the working environment occurred without the emotional costs and defensive behaviour noted under the budget constrained style (Hopwood, 1974), and they portray a working environment more conducive to fostering social capital.

Second, while 44% of the managers studied fell into the nonaccounting performance evaluation style (Hopwood, 1972), Hopwood (1972) regarded it as a "residual category" (p. 177) and did not investigate it any further. Since Hopwood's 1972 study, a number of authors have devised methods of analysing performance that take into account nonfinancial concerns, for example, Elkington's (1998) 'triple bottom line'. Hopwood's (1972) neglect of the nonaccounting style, therefore, provides an opportunity for qualitative case study research, and this gap in the literature is partly

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<sup>2</sup> In his 1974 paper, Hopwood extended his 1972 study using quantitative methods to investigate how managerial leadership style influences performance evaluation.

addressed in this thesis in that the not-for-profit organisation studied in my research evaluated performance in a nonaccounting way.

Third, economic conditions can influence the evaluative style adopted by superiors (Otley, 1978). Whereas unfavourable economic conditions result in tighter control, a less rigorous approach is applied when operating conditions are stable. Last, since Otley (1978), the use of budgetary information in performance evaluation has largely been studied quantitatively (Hartmann, 2000), an approach which does not provide the richness of information obtainable through qualitative methods. So far, an emphasis on meeting budget targets has been portrayed as negative, and having “unintended behavioural side effects” (Marginson & Ogden, 2005, p. 435). However, budgets have been found to play a more positive role in situations where uncertainty and high ambiguity exist. In such situations, managers “may commit to meeting pre-determined budgetary targets” as these targets provide them with “structure and certainty” (Marginson & Ogden, 2005, p. 450).

In some organisations, performance against the budget is linked to financial incentives such as bonuses (Garrison & Noreen, 2003). The structure of a bonus incentive scheme has the potential to influence social capital in an organisation (Cohen & Prusak, 2001; Leana & Van Buren, 1999). An emphasis on the budget may lead to managers’ considering their own departments and having little regard for other departments, resulting in conflict and rivalry (Argyris, 1952). Compensation practices that are structured so as to include a component for group and firm performance can lessen competition, encourage cooperation, contribute to a group identity, and promote social capital (Cohen & Prusak, 2001). Cohen and Prusak (2001) illustrate the point with the example of IBM which changed its bonus structure from bonuses on individual performance to bonuses with a strong emphasis on group and firm performance. The result was “a greater propensity to cooperate and a more palpable sense of group identity” (Cohen & Prusak, 2001, p. 51). The new bonus system resulted in less competition and less individualistic behaviour.

### **2.2.3.1 Summary.**

Although earlier studies have touched on the topic of performance evaluation (e.g. Argyris, 1952; Hofstede, 1968), Hopwood's 1972 study was seminal. Hopwood's performance evaluation styles have implications for social capital during the budgeting process. Otley (1978) sought to replicate Hopwood's (1972) findings on performance evaluation styles, but was unable to do so. Since then, numerous quantitative studies have sought to reconcile the conflicting results from the two studies (Briers & Hirst, 1990) at the expense of qualitative enquiry (Briers & Hirst, 1990). Hopwood's (1972), and Otley's (1978) studies raise the issue of organisational politics, which is the topic of the following section.

### **2.2.4 The influence of organisational politics on the budgeting process.**

It has been argued that budgeting has a *public, rational face*, as well as a *private, political face* (Covaleski, Dirsmith, & Jablonsky, 1985; Wilson & Chua, 1993). The public, rational face occurs as resources are allocated where needed. In contrast, the private, political face occurs as managers wield power and influence behind closed doors. Both faces are valid, and as Wilson and Chua (1993) note, over time, one face may be seen, and at other times, the second face is more dominant. Whilst the public, rational face of budgeting considers the allocation of scarce resources, it is the scarcity of resources that gives rise to political interference and manipulation (Wilson & Chua, 1993). Budgeting is both a technical and a political exercise (Wilson & Chua, 1993), with the private face of politics having the potential to influence every part of the budgeting process.

The various people and groups with an interest in an organisation's budget all have their own set of goals and priorities and they often have vested interests in seeing their own goals furthered. Thus, a process of negotiating and bargaining occurs as people and groups seek to ensure their interests are included in the budget (Parker et al., 1989). The holders of power in an organisation are often revealed and reinforced during budgeting; in the case of an organisation where the formal power network

dominates, for example, the resulting budget largely represents senior management's wishes (Wilson & Chua, 1993).

Organisational politics may drive some managers to build empires to satisfy their egos as bigger budgets convey a sense of importance and prestige (Prendergast, 1997). A budget cut may be viewed as "a personal defeat and evidence of lost stature" (Morrow, 1992, p. 93) unless all managers experience similar cuts. To be successful at the game of budgeting (Hofstede, 1968), managers need particular interpersonal skills. Morrow (1992) reflects on these skills, saying: "Budgeting is an intensely political exercise conducted with all the sharper managerial skills not taught at business school, such as lobbying and flattering superiors, forced haste, regretted delay, hidden truth, half-truth and lies" (p. 91).

Political considerations may motivate managers to play games to attract more resources to their own area (Collins, Munter, & Finn, 1983, 1987). In larger organisations, subordinate managers are often better informed about the "local decision environment" (Kren & Liao, 1988, p. 294). Subordinates can potentially use this 'private information' to make decisions that further their own self-interest rather than doing what is best for the organisation (Kren & Liao, 1988). In other words, private information can potentially be used in the game of budgetary politics. Political games played during budgeting include "padding, across-the-board cuts, increased spending at the end of the year, and the conservation of contingency reserves" (Parker et al., 1989, p. 62). However, game playing may also be a more deliberate strategy, with the choice of game reflecting managers' attitudes towards budgeting. In studies conducted in the United States, Collins et al. (1983, 1987) identified 13 game patterns. They define a game as "routinized behaviors adopted by subordinates to cope with pressures inherent in the budgetary negotiation process" (Collins et al., 1987, p. 31). These games are displayed in Table 2.1.

Table 2:1. Game patterns

Type of game pattern	Name of game pattern
<b>Devious game pattern</b>	
1. I try hard to keep what I had in last year's (period's) budget.	Horatio at the bridge
2. I get changes in my budget by seeking incremental changes over past budgets.	Incremental
3. I rely on friendship with my boss to get what I want in my budget.	Relying on friendship
4. I ask for a small item in the budget knowing that I can ask for a lot more the next time once it's in the budget.	Camel's nose
5. I get what I want in my budget by letting my boss think my operation has a crisis and must have the budgetary request.	Crisis
6. I place some items in my budgetary request which I know will not be approved so that those requests will be cut instead of items I really want approved.	Sacrificial lamb
7. I attach items that are likely to be cut from the budget if separately submitted to other projects that are certain to be approved.	Piggyback
<b>Economic game pattern</b>	

8. I invite my boss to my work area so that he can see what I really need in my budget.	On-site visits
9. If my boss won't give me what I want in my budget, I tell him: "We'll simply have to shut down. Unless we get the full budget amount, we just can't operate..." or something like that.	All or nothing
10. I get what I want in my budget by presenting my boss with the facts.	Presenting the facts
11. I get what I want in my budget by telling my boss that my requests will pay for themselves.	It'll pay for itself
<b>Time game pattern</b>	
12. I seek the help of others (other than my boss) to get what I want in my budget.	Seeking other's help (or end run)
13. If times aren't "right," I'll wait until the next budget period to ask for things in my budget.	Right time

Adapted from "The Budgeting Games People Play" by F. Collins, P. Munter, and D. W. Finn, 1987, *The Accounting Review*, 62(1), pp. 35-36. Used with permission from the American Accounting Association.

The choice of game employed reflects managers' attitudes towards budgeting. Quantitative analysis indicates managers with a negative attitude towards budgeting are more likely to adopt devious game patterns (Collins et al., 1987; Huang & Chen, 2010). In contrast, managers with positive budgetary attitudes are more likely to use economic, incremental or time game patterns (Collins et al., 1987).

#### **2.2.4.1 Summary.**

Budgeting has been described as having two faces: a public face and a private face. It is the private face that gives rise to political activity in an organisation, as scarce resources are allocated among competing demands. Bargaining, negotiation and game playing occur as various managers and groups jockey to ensure they get a bigger share of resources. Managers may use budgeting to satisfy their egos by seeking to build their area into an empire. The extent to which a game between managers remains as a game, or develops into a battle, is influenced by the culture of the organisation (Otley, 1978). The impact of organisational culture on budgeting is discussed in the following section.

#### **2.2.5 Organisational culture and the budgeting process.**

The norms, values, and beliefs contributing to the culture of an organisation often influence the budgeting process (Otley, 1978; Wilson & Chua, 1993). Budgets can also help to reinforce organisational values and beliefs (Wilson & Chua, 1993). Budgeting is more likely to be successful and effective if the budgeting process is congruent with organisational culture (O'Connor, 1995; Parker et al., 1989). By contrasting the beliefs held by senior management in two hypothetical organisations, Wilson and Chua (1993) illustrate how organisational culture can influence budgeting. In the first organisation, senior managers hold a negative view of employees, believing they are lazy and money-orientated. As a result of these beliefs, subordinate managers are closely controlled and the budget is used to control them by highlighting poor performance. Subordinate managers are made responsible for their poor performance if the budget is not met. In the second organisation, senior managers have a more positive view of their workers, believing that with the right motivation employees can be high achievers. Participation in budgeting is used to help motivate subordinate managers, and a longer-term view of profit is taken.

The prevailing national culture can also influence the culture of an organisation (Whitener, Brodt, Korsgaard, & Werner, 1998). Whitener et

al. (1998) argue managers in western, more individualistic cultures may experience a conflict between self-interest and building trusting relationships. Conversely, Whitener et al. (1998) contend that managers from countries where there is a lesser focus on self-interest, for instance Japan, may experience little or no conflict between self-interest and trust. The widespread culture of self-interest in western countries may extend to influencing the culture in organisations, affecting the ability of those working in organisations in these countries to build trust and, by implication, to develop social capital.

The culture of an organisation plays a role in the approach taken to involving subordinate managers in the budget standard setting process. In some organisations, senior managers set their subordinates' budgets in a *top-down* fashion. However, subordinates may have some scope to negotiate their budget with senior managers (Wilson & Chua, 1993). In contrast, a *bottom-up* approach involves subordinates' developing their budgets which are then reviewed and revised by senior managers. With this approach, lower level managers take a more active role, often negotiating budget targets with senior management (Wilson & Chua, 1993).

The practice of recruiting staff who fit well with organisational values and norms can be used to promote organisational culture (Parker et al., 1989). Newly recruited staff often attend an induction programme, providing management with a further opportunity to educate new staff about organisational norms and values (Cohen & Prusak, 2001; Parker et al., 1989). These points imply that both social capital in the organisation, and more specifically, social capital among those involved in the budgeting process, can be built and maintained by employing and rewarding staff who fit with organisational values and goals (Leana & Van Buren, 1999). In contrast to the literature covered so far in section 2.2, the beyond budgeting movement promotes the abandoning of budgets.

### 2.2.6 Beyond budgeting.

The term 'beyond budgeting' was coined by Hope and Fraser in 1997. They believe the abandonment of conventional budgeting practices and the employment of their beyond budgeting principles would better meet the needs of businesses in the 'third wave' or information age, where innovation, service, quality, speed, and knowledge-sharing are important (Hope & Fraser, 1997). Hope and Fraser claim that budgeting: is inefficient; is not aligned with company strategy and goals; focuses only on financial outputs; is not linked to the 'rhythm' of a business; encourages budget games; is time consuming; expensive; adds little value; reinforces a command and control culture; constrains freedom and autonomy; and, is a barrier to change (Hope & Fraser, 1999, 2001a, 2001b). They state that budgeting is "an unnecessary evil" (Hope & Fraser, 1997, p. 22) which "eats up 20 to 30 per cent of senior executives' and financial managers' time" (Hope & Fraser, 2001b, p. 22), and whose "time is up" (Hope & Fraser, 1997, p. 22).

However, despite these negative claims, it appears that in some companies, despite adopting beyond budgeting principles, the planning, control, and evaluation activities of the traditional budgeting process remain (Becker, 2014; Henttu-Aho & Jarvinen, 2013; O'Grady & Akroyd, 2016; Ostergren & Stensaker, 2011; Sandalgaard & Bukh, 2014). Nevertheless, management accounting tools such as rolling forecasts, benchmarking, target setting, annual plans, balanced scorecards, and value-based management (Henttu-Aho & Jarvinen, 2013) have replaced the conventional use of budgets in many companies.

Case studies of organisations that have introduced beyond budgeting principles (for example, Becker, 2014; Henttu-Aho & Jarvinen, 2013; Lindsay & Libby, 2007; O'Grady & Akroyd, 2016; Ostergren & Stensaker, 2011; Sandalgaard & Bukh, 2014) are inconclusive. In some of these studies, budgets were not fully abandoned (Sandalgaard & Bukh, 2014), were simplified (Henttu-Aho & Jarvinen, 2013), or were reintroduced at a later date (Becker, 2014).

Beyond budgeting advocates believe their principles eliminate budgeting games (Ostergren & Stensaker, 2011). According to Ostergren and Stensaker (2011), “respondents express relief about not having to spend their allocated resources within a certain timeframe and [the fact that] they no longer have to play budgetary games” (p. 167). However, the authors raise the possibility that new kinds of games might develop. In one division studied by Ostergren and Stensaker (2011), the adoption of beyond budgeting principles resulted in more frequent interaction between some managers than had previously occurred under the traditional budgeting system. Similarly, the strong focus on teamwork and transparency of financial information reported by O’Grady and Akroyd (2016) produced interaction between team members in a branch.

O’Grady and Akroyd (2016) describe a company that adopted beyond budgeting principles in a way that appeared to encourage social capital. In this organisation, cultural and administrative controls were used to promote company values and beliefs. The company had a stated corporate culture built around ‘three pillars’: culture; family; and, philosophy. Teamwork was strongly encouraged, with the company’s culture promoting “a familial, co-operative and mutually supportive environment in which the team wins or loses together” (O’Grady & Akroyd, 2016, p. 12). The managers in the company were concerned that profit growth should occur in a way that was consistent with its stated values and beliefs.

### **2.2.7 Summary.**

Participation in the budget setting process provides subordinates with an opportunity to create slack in their budgets. Superior managers are often aware of this tendency, and may introduce counter-bias to eliminate perceived bias. Hopwood’s 1972 study on the role of budgets in the evaluation of managerial performance was seminal and pioneered subsequent research. Otley (1978) sought to replicate Hopwood’s work, but was unable to do so. Subsequently, many researchers have sought to reconcile the two studies, using quantitative means in the main.

Organisational factors may influence budgeting, including both the extent to which politics operates during the budgeting process, and the culture of the organisation. The 'beyond budgeting' movement believes organisations should abandon the budgeting process and use other management accounting tools in its place. However, case studies of organisations that have done so are inconclusive. The literature on budgeting exhibits an overemphasis on quantitative, questionnaire-based research. There is a lack of contemporary, case-based qualitative studies on budgeting, particularly in the private and voluntary sectors. Trust among those involved in budgeting is another area where there is a lack of qualitative research and it is the topic of the following section.

### **2.3 Trust and Budgeting**

The literature on trust in accounting is abundant and the topic has been extensively researched (Baldvinsdottir, Hagberg, Johansson, Jonall, & Marton, 2011). Likewise, trust in management accounting has also been well researched (Wennblom, 2012). However, the literature on trust, an aspect of social capital, and budgeting is less plentiful. Here three strands of the trust literature are examined: (1) how trust manifests itself in the budgeting process; (2) the influence of trust on budgetary participation; and, (3) trust as part of a considerate leadership style. In the discussion that follows, for clarity, the term 'superior' refers to the supervisor, the more senior person in the working relationship. The term 'subordinate' refers to the manager who is being supervised, or the more junior person in the working relationship.

#### **2.3.1 How trust manifests itself in the budgeting process.**

The literature provides an insight into how trust can be built between individuals involved in the budgeting process. Two broad areas emerge: the influence of performance evaluation style on trust; and, studies on manifestations of trust in the budgeting process.

The style of performance evaluation used to evaluate subordinates has been found to influence interpersonal trust and, by implication, social

capital. A budget constrained style of performance evaluation has been linked with subordinates distrusting their superiors (Hopwood, 1972, 1974; Otley, 1978). In contrast, Ross (1994) reported that managers working in organisations characterised by high trust experienced less job-related tension when a budget constrained or profit conscious evaluation style was used. Ross proposed that the nonaccounting style did not result in lowered job-related tension due to its subjective nature. "Even with a high level of trust in their superior, subordinate managers may always have a nagging doubt as to the reasonableness of an evaluation based on subjective criteria" leading to "a lack of control over their ability to affect their evaluation" (Ross, 1994, pp. 630-631). In comparison, the use of accounting data for performance evaluation purposes was described by Ross (1994) as being objective and verifiable.

An insight into how trust (an aspect of social capital) influences budgeting is provided by Lau and Buckland (2001), Lau and Tan (2006), and Manochin (2008). Trust has been associated with open communication, the desire to reach a compromise, and a consensus of opinion. These factors reduce stress, frustration, and conflicts in the workplace (Lau & Buckland, 2001). Trust has also been linked with improved problem solving, improved decision quality, and constructive, congenial working relationships, again leading to reduced workplace stress and tension (Lau & Tan, 2006). Although Lau and Tan's (2006) proposed relationships were made in a general context, they apply equally well to budgeting.

In addition, further factors influencing trust in the resource allocation process in a Scottish university were highlighted by Manochin (2008). Although her study involved mixed methods, it focused largely on interpersonal interactions between those involved in budgeting. Drawing on interview data, she found trust was associated with a perception of being listened to, good lines of communication, a willingness to compromise, feeling part of the group, and knowing others from a previous experience of working together. A trustworthy person is described as one who "is a reasonable person who does not take advantage, gives fair representation of events, is honest, keeps and value[s] agreements and is

fair with others” (Manochin, 2008, p. 44). Trust was found to be developed over time, and through openness and good reason. Factors that were found to reduce trust were “a misunderstanding, tendency to keep information, unfounded presumption for the outcome and the situation, suspicion, surprise and mistakes along with inaccurate information” (Manochin, 2008, p. 44). Those who were more trusting also tended to be ‘more accountable’, even in adverse circumstances. Their trusting attitude was associated with tolerance and cooperative attitudes towards overcoming budgeting difficulties. In contrast, those who were less trusting tended to be ‘less accountable’ and tended to be distrustful of the ‘other side’ in the budgeting process (Manochin, 2008).

### **2.3.1.1 Summary.**

Trust, an aspect of social capital, can be influenced by the style of performance evaluation used in an organisation. Trust has also been associated with qualities likely to occur in a workplace rich in social capital, for instance, open communication, a willingness to compromise, fairness, honesty, dependability, accountability, tolerance, and a cooperative attitude. Another area where trust influences budgeting is budgetary participation, the topic of the following section.

### **2.3.2 Budgetary participation and trust.**

The role of trust in budgetary participation has been less extensively studied than other aspects of participation. Trust between superior and subordinate during budgeting has been found to play a role in reduced job tension (Lau & Buckland, 2001; Lau & Tan, 2006), and improved job performance (Chong & Johnson, 2007; Shields & Shields, 1998; Su, 2010). Trust in supervisors can also be enhanced by budgetary participation (Cheng, Chen, & Shih, 2014). A less negative attitude (or more trust) towards superiors when the budget was unfavourable was found to be another outcome of trust (Magner, Welker, & Campbell, 1995). There is a link between slack creation and loss of trust in subordinates (Lau & Eggleton, 2003). Subordinates who create slack in their budgets could lose the trust of their superiors if the slack is detected. This distrust

may lead to a cessation of subordinate participation in budgeting. Organisational culture has been found to influence the effectiveness of participation in budgeting on subordinates' respect for their superior manager (O'Connor, 1995).

Su's (2010) empirical, quantitative study offers an insight into trust at work in budgetary participation in a way that is likely to build social capital. Su's study notes that participation results in improved communication and interaction between superior and subordinate, and builds trust into the working relationship. The trust present in the superior/subordinate working relationship helps improve managerial performance. From the context, it can be assumed that the managerial performance is in relation to meeting budget goals. Trust is also part of a considerate leadership style. The effect of this style of leadership is examined in the following section.

### **2.3.3 Considerate leadership style.**

A considerate leadership style is characterised by mutual interpersonal trust between superior and subordinate, along with friendliness, helpfulness, open communication, respect for the subordinate's ideas, support for the subordinate, and concern for their feelings (Brownell, 1983; Hopwood, 1974; Kyj & Parker, 2008; Otley & Pierce, 1995). Although trust is only one aspect of a considerate leadership style, it may promote social capital during the budgeting process. A considerate leadership style has been found to have a beneficial influence on budgeting (Brownell, 1983; Kyj & Parker, 2008; Otley & Pierce, 1995).

Furthermore, the style of performance evaluation adopted by superiors has been found to influence consideration. Superiors using a budget constrained performance evaluation style were found to be less likely to adopt a considerate leadership style (Briers & Hirst, 1990; Hopwood, 1974). There appeared to be a 'contagion effect' at work, where superiors who were themselves evaluated through the use of a budget constrained style were more likely to use the same style with subordinates (Hopwood, 1974). However, while Hopwood (1974) found that a considerate

leadership style was associated with a profit conscious or nonaccounting performance evaluation style, others have been unable to detect a similar relationship (Briers & Hirst, 1990).

#### **2.3.4 Summary.**

Trust, an aspect of social capital, has been shown to play a role in budgeting in a variety of ways. It has been found to contribute to open communication, fairness, honesty, dependability, accountability, and a cooperative attitude. In the context of subordinate participation in budgeting, trust between superior and subordinate plays a role in reducing job-related tension and improves job performance. Trust in supervisors is enhanced; in addition, trust results in a less negative attitude towards the superior when budget setting results in an unfavourable budget. There is also a link between the creation of budgetary slack and loss of trust in subordinates. Trust is part of a considerate leadership style, a style which has generally been found to have a beneficial influence on budgeting. A considerate leadership style is less likely to be seen among budget constrained managers, and is more likely to be adopted by superiors with a profit conscious or a nonaccounting performance evaluation style. With a few exceptions, the literature on trust and budgeting is largely positivistic in nature. The presence of trust and its associated qualities in working relationships, along with a considerate leadership style, are features of the superior/subordinate working relationship that may be seen during budgeting in an organisation rich in social capital. The next section examines the topic of social capital.

### **2.4 Social Capital**

Social capital is a broad and diverse topic that has been studied from a wide variety of perspectives. Social capital was originally documented in a community, and in more recent years, has been adapted to business. Initially a sociological concept, the term social capital has been exported into “everyday language” (Portes, 1998, p. 2), and has become “routinized into everyday conversation and policy discourse across an extraordinarily diverse set of disciplines ... in countries around the world” (Woolcock,

2010, p. 469). There is a growing acceptance in business of the importance of social capital as evidenced by the International Integrated Reporting Council's inclusion of social and relationship capital as forms of capital (International Integrated Reporting Council, 2013). Indeed, Kwon and Adler (2014) are of the opinion that "social capital has matured – from a concept into a whole field of research" (p. 412).

This section examines social capital at a community level and then outlines social capital in a business setting. Social capital in an organisation is then addressed, along with an examination of social capital in the three organisational forms studied in this thesis. Negative aspects of social capital are explored. The section ends with a discussion on social capital and budgeting, followed by a summary.

#### **2.4.1 Social capital in a community context.**

The term social capital was first used by Hanifan in 1916 (Productivity Commission, 2003) in the context of building up a rural community through social events held at a local school. According to Hanifan (1916), social capital refers to "good-will, fellowship, mutual sympathy and social intercourse among a group of individuals and families who make up a social unit ..." (p. 130).

Between Hanifan in 1916 and the mid-1980s, the concept of social capital was rarely referred to, and when it was (for example, Jacobs, 1962; Loury, 1977), none of the authors cited previous studies on social capital (Woolcock & Narayan, 2000). These earlier authors referred to social capital as an 'umbrella term' to "encapsulate the vitality and significance of community ties" (Woolcock & Narayan, 2000, p. 229).

Pierre Bourdieu, a French sociologist, was the first to make a systematic, theoretical analysis of social capital. In his 1986 work *The Forms of Capital*, he takes a neo-Marxist view of social capital, focusing on issues about access to resources and power in society (Harper, 2001; Huysman & Wulf, 2004). However, it is the works of James Coleman (1987, 1988, 1990), a sociologist, and Robert Putnam (1993, 1995a, 1995b, 2000), a

political scientist at Harvard University, which have provided the foundation and impetus for much of the current interest in social capital (Woolcock & Narayan, 2000).

Coleman (1988) proposed that social capital be regarded as a concept alongside the existing concepts of financial, physical, and human capital. For Coleman (1988), social capital is “embodied in relations among persons” (S118). He suggests social capital is made up of two common elements: social structures; and, actions of actors. According to Coleman (1988), these “social structures” facilitate “actions of actors ... within the structure” (Coleman, 1988, S98). Coleman’s 1988 work outlines the role of social capital at family and community level in the creation of human capital (Coleman, 1988).

Putnam, Leonardi, and Nanetti (1993) used regions of Italy to illustrate the concept of social capital. A history of “rich networks of organized reciprocity and civic solidarity” (Putnam, 1993, p. 37) in the northern regions of Italy built social capital and made the regions a better place to live in and govern. He found less social capital in southern regions of Italy where the communities were less civic.

Putnam (1995a, 1995b, 2000) then turned the focus of his research onto the United States in an attempt to explain what he perceived as an erosion of social capital in communities. He put forward the argument that the level of social capital in America was decreasing as people were becoming less involved in community life (Putnam, 1995a). He further suggested the decrease in social capital in the United States had resulted in a reduction in social trust, reciprocity, and honesty in communities (Putnam, 2000). For Putnam, networks, and social trust and norms such as reciprocity and honesty are features of social capital in a community setting (1995a, 1995b, 2000).

Fukuyama (1995), a social scientist, studied social capital as an attribute of six countries. He identifies Germany, Japan, and the United States as being high social capital countries where high trust enables people to cooperate with each other (Fukuyama, 1995). The propensity of people to

trust and cooperate has allowed the growth of large corporates in these countries (Fukuyama, 1995). In contrast, low trust countries such as China, Hong Kong, and Taiwan tend towards small scale, family-owned businesses. In these countries, there is trust between family members, but a lack of trust between people who do not belong to the family.

#### **2.4.1.1 Summary.**

The concept of social capital has developed over the last century. Having first been identified in a community setting, it has now extended to include regions, states, and countries. Networks, social trust, and norms have been identified as important aspects of social capital. More recently, the concept of social capital has been adopted by business researchers. The use of social capital in a business setting is the topic of the following section.

#### **2.4.2 Social capital in business.**

In recent years, the study of social capital in a business setting has received increasing attention. Table 2.2 displays the growth of scholarly articles on social capital in business from 1992 to 2013.<sup>3</sup>

Social capital has been examined in areas of business such as entrepreneurial networks (Anderson & Jack, 2002), Russian business networks (Butler & Purchase, 2008), gender in the workplace (Timberlake, 2005), creation and sharing of knowledge (Nahapiet & Ghoshal, 1998), employment practices (Leana & Van Buren, 1999), director selection (Kim & Cannella, 2008), management practices (Burt, Hogarth, & Michaud, 2000; Ruwhiu, Kirkwood, & Walton, 2002), management control systems (Chenhall et al., 2010), local government (Coffe & Geys, 2005), public sector corporate governance (Subramaniam, Stewart, Ng, & Shulman,

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<sup>3</sup> The search query was (Social capital\* AND (business OR management OR organisations OR firms OR entrepreneurship OR small business OR economics)) and was carried out in March 2014. The search query is similar to that used by Lee (2009).

2013), social shopping (Kim, Kim, & Huang, 2014), and family firms (Zahra, 2010).

*Table 2:2. Growth of scholarly articles on social capital*

<b>Year</b>	<b>Number</b>	<b>Year</b>	<b>Number</b>	<b>Year</b>	<b>Number</b>
1992	6	2000	27	2008	135
1993	4	2001	35	2009	143
1994	7	2002	35	2010	159
1995	7	2003	56	2011	195
1996	10	2004	42	2012	157
1997	18	2005	62	2013	192
1998	16	2006	68		
1999	11	2007	94		

Source: SSCI index of the Web of Science database

Lee (2009) reviews social capital in business and management and proposes a research agenda for studying social capital in those fields. He notes that much of the research on social capital has been quantitative in nature, and suggests that combining quantitative and qualitative methods may yield information that can be difficult to capture using only quantitative methods (Lee, 2009). He further notes that it can be difficult to capture information about social capital and understand it when using only quantitative methods to collect data (Lee, 2009). He indicates that Nahapiet and Ghoshal (1998) have led research efforts by providing “a

seminal way of analysing social capital in a business and management context” (Lee, 2009, p. 253). According to Lee (2009), Nahapiet and Ghoshal’s 1998 paper is the most frequently cited article on social capital in the business and management area. Indeed, the SSCI index in the Web of Science Database<sup>4</sup> indicates Nahapiet and Ghoshal’s 1998 paper has received the highest number of citations for a paper on social capital, (2,571), more than double the number of citations received by the second ranked paper.

Nahapiet and Ghoshal’s (1998) work focuses on the role of social capital in the creation of intellectual capital. Their framework for analysing social capital has, however, been adapted by social capital researchers from other fields of business. Table 2.3 displays some of the empirical studies in a business setting that have applied their framework.

*Table 2:3.* Empirical applications of Nahapiet and Ghoshal’s (1998) framework

<b>Author(s)</b>	<b>Setting</b>
1. Tsai and Ghoshal (1998)	Examine how social capital affects the internal functioning of firms and how social capital contributes to a firm’s ability to create value in the form of innovations.
2. Yli-Renko, Autio, and Sapienza (2001)	Examine the effects of social capital in key customer relationships on knowledge acquisition and knowledge exploitation.

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<sup>4</sup> The search query was (Social capital\* AND (business OR management OR organisations OR firms OR entrepreneurship OR small business OR economics)) and was carried out in March 2014. It is similar to the query used by Lee (2009).

3. Bolino, Turnley, and Bloodgood (2002)	Examine how organisational citizenship behaviour helps create and maintain social capital within firms.
4. Kumar and Worm (2003)	Analyse the impact of social capital in shaping the dynamics of business negotiations between northern European and Chinese business people.
5. Liao and Welsch (2003)	Explore the relationship between social capital and entrepreneurial growth aspiration among nascent technology entrepreneurs.
6. Edelman, Bresnen, Newell, Scarbrough, and Swan (2004)	Explore social capital in a project-based learning situation in two companies in the United Kingdom.
7. Hatzakis, Lycett, Macredie, and Martin (2005)	Study “the effects of change management interventions in the poor relationship between business and IT colleagues” (p. 60).
8. Lee, Wong, and Chong (2005)	Assess the extent to which human capital and social capital impact research and development outcomes.
9. Liao and Welsch (2005)	Investigate the roles of social capital in venture creation.
10. Fuller and Tian (2006)	Investigate links between social capital, symbolic capital, and responsible entrepreneurship in SMEs.
11. Butler and Purchase (2008)	Analyse the development of social capital within Russian business networks.

12. Teoh and Pan (2008)	Study the influence of social integration in enterprise information systems' use.
13. Westerlund and Svahn (2008)	Investigate how social capital provides a basis for relationship value in the networks of eight Finnish SMEs.
14. Adam and Urquhart (2009)	Study knowledge creation and transfer processes and the role social capital plays in facilitating those processes for IT capacity building in the Maldives.
16. Carr, Cole, Ring, and Blettner (2011)	Develop a measure to assess internal social capital among family firms.
15. Subramaniam, Stewart, Ng, and Shulman (2013)	Examine factors that affect corporate governance in Australian state government departments.
16. Sanchez-Famoso, Maseda, and Iturralde (2014)	Examine the effects of internal social capital on organisational innovation.
17. Sanchez-Famoso, Akhter, Iturralde, Chirico, and Maseda (2015)	Study the effects of family and nonfamily social capital on firm performance.
18. Mani and Lakhali (2015)	Explore how internal social capital affects family firm performance.
19. Lefebvre, Sorenson, Henchion, and Gellynck (2016)	Investigate social capital and the performance of learning networks.

### **2.4.2.1 Summary.**

The concept of social capital has been applied to a business setting, with Nahapiet and Ghoshal (1998) emerging as the seminal paper and leading the way for subsequent research. The following section suggests an organisation can be viewed as a separate social community, and reviews the literature on social capital in an organisation.

### **2.4.3 Social capital in an organisation.**

Drawing from the work of Kogut and Zander (1996), Nahapiet and Ghoshal (1998), and Andrews (2010) suggest an organisation can be viewed as a 'social community'. Kogut and Zander's (1996) notion that an organisation is a social community relates to the creation and transfer of knowledge, and thus implies that the notion of an organisation as a social community is valid. Likewise, both Bolino et al. (2002), and Cohen and Prusak (2001) argue an organisation can be viewed as a community, and that analysis of social capital in "communities, neighbourhoods, cities, regions, and nations" can reveal "valuable truths" about social capital in organisations (Cohen & Prusak, 2001, p. 6). Bolino et al. (2002, p. 507) maintain that just as "good citizens" in a community help the community to develop social capital, "good organisational citizens" likewise contribute to the creation of social capital within an organisation, or within parts of an organisation. Whilst social capital is generally portrayed as a positive aspect of organisational life, it can also lead to outcomes that can be harmful to both the organisation itself and to society (see section 2.4.5).

The term 'organisational social capital' was first used by Leana and Van Buren (1999) (Castillo & Smida, 2015). However, as a concept, organisational social capital has not been widely explored (Carmona-Lavado, Cuevas-Rodriguez, & Cabello-Medina, 2010; Castillo & Smida, 2015; Leana & Van Buren, 1999; Pastoriza, Arino, & Ricart, 2008). There are at least two issues that arise from the literature on organisational social capital: scope and context. Researchers differ on the scope of organisational social capital. For example, social capital can be viewed as a public good (Leana & Van Buren, 1999) that directly benefits the

collective or community, and which belongs to the community (Kostova & Roth, 2003). Thus, social capital is an attribute of the organisation (Schneider, 2009). An alternative view is that social capital is a private good that directly benefits the individual (Leana & Van Buren, 1999). Any benefit to the organisation is incidental (Leana & Van Buren, 1999). Yet, Leana and Van Buren (1999), and Kostova and Roth (2003) argue that within an organisation, social capital can be both a public and private good which has collective and individual benefits.

Some researchers study social capital in organisations in specific contexts such as the hotel industry in New Zealand (Brien, 2010; Brien, Ratna, & Boddington, 2012; Brien, Thomas, & Hussein, 2013), or in a New Zealand local authority (Nyamori, Lawrence, & Perera, 2012). Such studies provide results that are specific to a particular setting rather than a framework of organisational social capital that can be applied to other settings. Other studies consider organisational social capital in a particular context and also provide a limited view of what social capital might look like in an organisation. For example, in Castillo and Smida (2015), organisational social capital consists of orientation towards collective goals, mutual trust, and shared values. Tantardini and Kroll (2015) theorise that social capital in an organisation is made up of social interaction, trust, and common goals. Four studies that provide a more comprehensive framework for analysing social capital at the individual level are discussed; these are: Nahapiet and Ghoshal (1998); Leana and Van Buren (1999); Cohen and Prusak (2001); and, Huppi and Seemann (2001).

Nahapiet and Ghoshal (1998) provide a comprehensive framework for analysing social capital in an organisation. Although their paper discusses how social capital aids the creation and exchange of knowledge, their framework is generic and has been applied to other contexts (see Table 2.3). Their framework consists of three dimensions or clusters: a structural dimension; a relational dimension; and, a cognitive dimension. The structural dimension encompasses network ties that confer information benefits, the configuration of the network, and, what they call,

an appropriable organisation<sup>5</sup>. The relational dimension consists of trust, norms, obligations and expectations, and identification. Shared language and codes, and shared narratives make up the cognitive dimension.

As part of their study into how employment practices can nurture or discourage social capital in organisations, Leana and Van Buren (1999) present a generic framework for analysing social capital in an organisation. Whilst their paper does reference Nahapiet and Ghoshal's (1998) study, their framework does not draw on Nahapiet and Ghoshal's work. Leana and Van Buren (1999) propose that associability and trust are the primary components of organisational social capital. Associability is defined as "the willingness and ability of participants in an organization to subordinate individual goals and associated actions to collective goals and actions" (Leana & Van Buren, 1999, p. 541). In other words, employees are willing to set aside their own agendas and do what is best for the collective, or the organisation. They argue resilient and generalised trust is typically found in organisations rich in social capital. Resilient trust is not governed by formal contracts, and is based on "experience with the other parties and/or beliefs about their moral integrity" (Leana & Van Buren, 1999, p. 543). A second type of trust, generalised trust, relies on affiliation or reputation rather than the trust occurring between parties who know each other. It is an indirect form of trust that relies on norms and behaviours in the organisation (Leana & Van Buren, 1999), and where an individual is trusted on the basis of their affiliation with others without direct knowledge of others.

Cohen and Prusak (2001) provide an alternative view of social capital in an organisation that is not context-specific. In their opinion, trust, networks and communities, having the space and time to connect, shared values and behaviours, and social talk and storytelling are important

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<sup>5</sup> An appropriable organisation occurs when social capital such as ties, norms, and trust developed in one setting can be transferred to another setting (Nahapiet & Ghoshal, 1998).

aspects of social capital in an organisation. They argue these help generate cooperative action in organisations.

Huppi and Seemann (2001) offer another view of organisational social capital. They consider that networks, shared norms and beliefs, and a shared context and common views are salient features of organisational social capital. They contend social capital creates an environment in which collaboration and coordinated action help an organisation to gain a competitive advantage in the 'new economy' (Huppi & Seemann, 2001). They draw extensively on the lead author's experience as chairman and CEO of Zurich Financial Services Group.

Much of Huppi and Seemann's (2001) classification is similar to Nahapiet and Ghoshal's (1998) framework. However, they extend Nahapiet and Ghoshal's framework to include shared beliefs and common views. Shared beliefs are described as a "shared vision, sense of purpose and values" (Huppi & Seemann, 2001, p. 34). Like shared norms, shared beliefs provide predictability or consensus in the social system, reduce the need for formal controls, and reduce transaction costs (Huppi & Seemann, 2001). Huppi and Seemann note that a "'common view' means that the people involved in the work can each see what everybody sees is going on" (Huppi & Seemann, 2001, p. 36). However, they do not explicitly state what a common view is, although it does appear that a common view is similar to a shared worldview or outlook among those in an organisation.

#### ***2.4.3.1 Summary.***

Four approaches to studying social capital within an organisation have been outlined and are displayed in Table 2.4. Nahapiet and Ghoshal (1998), Leana and Van Buren (1999), and Huppi and Seemann (2001) provide frameworks for identifying social capital in an organisation, while Cohen and Prusak (2001) provide an insight into aspects of social capital that are important within an organisation. This section has focused on social capital in a general sense in an organisation. The section that follows examines the literature on social capital in organisations in three business forms.

Table 2:4. Four approaches to studying social capital in an organisation

Authors	Outline of framework or approach						
Nahapiet and Ghoshal (1998)	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;">Structural Dimension</td> <td style="width: 50%; vertical-align: top;"> <ul style="list-style-type: none"> <li>Network Ties</li> <li>Network Configuration</li> <li>An Appropriable Organisation</li> </ul> </td> </tr> <tr> <td style="vertical-align: top;">Relational Dimension</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>Trust</li> <li>Norms</li> <li>Obligations and Expectations</li> <li>Identification</li> </ul> </td> </tr> <tr> <td style="vertical-align: top;">Cognitive Dimension</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>Shared Language and Codes</li> <li>Shared Narratives</li> </ul> </td> </tr> </table>	Structural Dimension	<ul style="list-style-type: none"> <li>Network Ties</li> <li>Network Configuration</li> <li>An Appropriable Organisation</li> </ul>	Relational Dimension	<ul style="list-style-type: none"> <li>Trust</li> <li>Norms</li> <li>Obligations and Expectations</li> <li>Identification</li> </ul>	Cognitive Dimension	<ul style="list-style-type: none"> <li>Shared Language and Codes</li> <li>Shared Narratives</li> </ul>
Structural Dimension	<ul style="list-style-type: none"> <li>Network Ties</li> <li>Network Configuration</li> <li>An Appropriable Organisation</li> </ul>						
Relational Dimension	<ul style="list-style-type: none"> <li>Trust</li> <li>Norms</li> <li>Obligations and Expectations</li> <li>Identification</li> </ul>						
Cognitive Dimension	<ul style="list-style-type: none"> <li>Shared Language and Codes</li> <li>Shared Narratives</li> </ul>						
Leana and Van Buren (1999)	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Associability</td> <td style="width: 50%;"></td> </tr> <tr> <td style="vertical-align: top;">Trust</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>Resilient Trust</li> <li>Generalised Trust</li> </ul> </td> </tr> </table>	Associability		Trust	<ul style="list-style-type: none"> <li>Resilient Trust</li> <li>Generalised Trust</li> </ul>		
Associability							
Trust	<ul style="list-style-type: none"> <li>Resilient Trust</li> <li>Generalised Trust</li> </ul>						
Cohen and Prusak (2001)	<ul style="list-style-type: none"> <li>Trust</li> <li>Networks and Communities</li> <li>Space and Time to Connect</li> <li>Shared Values and Behaviours</li> <li>Social Talk</li> <li>Storytelling</li> </ul>						

Huppi and Seemann (2001)	<p>Networks</p> <p>Shared Norms and Beliefs</p> <p>Shared Context and Common Views</p>
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#### **2.4.4 Organisational social capital in three business forms.**

In this section, the literature on social capital in the three business forms studied in this thesis is reviewed, specifically the literature relating to a not-for-profit, a family firm, and a corporate. The literature on not-for-profits is discussed as the church studied in this thesis is a not-for-profit organisation. Studies on family firms have been included as family ties are present in the management of the private company. The literature on social capital in corporations is explored, as the third entity in this thesis is a corporate.

##### ***2.4.4.1 Social capital in a not-for-profit organisation.***

While some studies on social capital have been conducted in what might broadly speaking be called not-for-profit contexts (see, for example, Von Schnurbein's macro-level study; Awio, Northcott, & Lawrence's (2011) study of communities; Hauck (2010) on countries; and, Schneider (2009) at the organisational level), there are comparatively few studies that investigate social capital internally, within a not-for-profit organisation. Those studies that do describe social capital within a not-for-profit organisation focus on social capital in a specific context. One such example is Weisingera and Black (2006) who study social capital in the context of achieving strategic goals in a youth organisation. Chenhall et al. (2012), which focused on bonding and bridging social capital in the context of performance measurement and management control systems in two non-profit organisations, presents a further example.

Some studies have been carried out in the field of budgeting in religious not-for-profit organisations, specifically in denominational churches. Researchers have investigated budgeting practices in the head office of a denominational church (Jacobs 2005; Lightbody, 2000, 2003; Parker,

2002), while others have studied the process of budgeting in a local church (Cunningham & Reemsnyder, 1983; Irvine, 2005; Kluyers, 2001). Much of the literature on budgeting in a church context has focused on the notion of a sacred/secular divide (for example, Irvine, 2005; Jacobs, 2005; Kluyers, 2001; Parker, 2002). No studies were located exploring social capital in the budgeting process of a not-for-profit organisation.

#### ***2.4.4.2 Social capital in a family firm.***

Two seminal studies were located that address social capital between individuals in a family firm. Arregle, Hitt, Sirmon, and Very (2007) focus on how organisational social capital is created in a family firm. They argue their research applies to other organisations that have a dominant social group with its own values and norms, and where there is a strong commitment by the dominant group to the organisation, for example, a church (Arregle et al., 2007). They note family members can aid the development of organisational social capital by employing and promoting employees who share the family's values and goals (Arregle et al., 2007). This conclusion concurs with Leana and Van Buren (1999) who consider social capital in an organisation can be built by employment practices that select and reward those who share organisational values and goals.

Pearson, Carr, and Shaw (2008) draw on Nahapiet and Ghoshal's 1998 framework of social capital to outline an internal, theoretical perspective of social capital. They argue social capital present in a family firm provides the firm with a competitive advantage which results in wealth and value creation. Pearson et al. (2008) explain how social capital manifests itself in a family firm in a way that does not occur in a nonfamily firm. They believe a family firm often has an abundance of internal network ties existing between family members, a shared vision and purpose firmly rooted in the family's history, and strong resilient trust between family members. (Resilient trust is based on the moral integrity of the other party). They consider family firms have norms that are unique to the family such as teamwork, egalitarianism, and collaboration (Pearson et al., 2008). They note the norms in a family firm often integrate family values

into the business, providing a unique family dimension to the business (Pearson et al., 2008). They also believe those in a family firm identify strongly with the firm, as the identity of the family members is closely tied to that of the business (Pearson et al., 2008).

Arregle et al. (2007), and Pearson et al. (2008) recognise there is a negative side to social capital in a family firm. (Negative aspects of social capital are discussed further in section 2.4.5). Strong social capital among family members can hinder the entrance of new practices and information, and there may be a lack of openness to new ideas (Arregle et al., 2007; Pearson et al., 2008). Arregle et al. (2007) indicate these factors have the potential to restrict innovation. Further, there is the potential for dysfunctional family behaviour, or family conflicts such as internal rivalry over which family member is to be promoted, to affect social capital. Additionally, the death or divorce of a family member, or a family scandal has the potential to impact social capital within the organisation. Family members may also free-ride and not pull their weight (Arregle et al., 2007; Pearson et al., 2008).

Since Pearson et al.'s (2008) theoretical contribution, the literature examining social capital in the context of family firms has been quantitative in nature. The literature located is summarised in Table 2.5.

Carr et al.'s (2011) study differed from the other four studies in that it sought to develop a measure of internal social capital for a family firm. In contrast, Sanchez-Famoso et al. (2015), and Mani and Lakhali (2015) explored family firm social capital in the context of firm performance. In a similar vein, Sanchez-Famoso et al. (2014) examined the effects of internal social capital on organisational innovation in family firms.

Sanchez-Famoso et al. (2013), and Sanchez-Famoso et al. (2015) differentiated between social capital occurring among family members and social capital operating among nonfamily members. Of interest to this thesis is the finding from Sanchez-Famoso et al. (2015) that social capital

*Table 2:5. Summary of studies on social capital in family firms since Pearson et al. (2008)*

<b>Study</b>	<b>Draws on</b>	<b>Location</b>
Carr, Cole, Ring, and Blettner (2011)	Nahapiet and Ghoshal (1998); Arregle, Hitt, Sirmon, and Very (2007); Pearson, Carr, and Shaw (2008).	U.S.A.
Sanchez-Famoso, Maseda, and Iturralde (2013)	Nahapiet and Ghoshal (1998); Arregle et al. (2007); Pearson et al. (2008).	Spain
Sanchez-Famoso, Maseda, and Iturralde (2014)	Nahapiet and Ghoshal (1998); Arregle et al. (2007); Pearson et al. (2008).	Spain
Sanchez-Famoso, Akhter, Iturralde, Chirico, and Maseda (2015)	Nahapiet and Ghoshal (1998).	Spain
Mani and Lakhal (2015)	Nahapiet and Ghoshal (1998); Arregle et al. (2007); Pearson et al. (2008); Carr et al. (2011).	Tunisia

operating between nonfamily members had a stronger effect on family performance than did family social capital. It appears this effect occurs due to “the diversity and professionalism of non-family members” (Sanchez-Famoso et al., 2015, p. 1732). While this thesis does not examine firm performance, it appears that social capital operating between nonfamily members in a family firm should not be overlooked. No

literature was located investigating social capital in the budgeting process of a family firm.

#### ***2.4.4.3 Social capital in a corporation.***

Studies located on social capital at a corporate level focus on either social capital occurring between corporates or are context-specific. An example of social capital occurring between corporates is a strategic alliance where formal partnerships between firms are formed to further business interests (Knoke, 2009). There are many studies that document social capital occurring at the corporate level that are context-specific such as director selection (Kim & Cannella, 2008); New Zealand corporate directors (Wood, 2010); marketing managers in a global network (Griffith & Harvey, 2004); and, global careers of managers in large multinationals (Makela & Suutari, 2009). Nahapiet and Ghoshal's 1998 framework has been applied empirically to corporates in a specific capacity, for example, by Hatzakis et al. (2005) in the field of change management in a British financial institution. Within bigger organisations such as corporations, social capital can occur at many levels, for example, between individuals, at a team, department, and divisional level, as well as at the organisational level (Gabbay & Leenders, 2001). No literature was located examining social capital in the budgeting process of a corporation.

#### ***2.4.4.4 Summary.***

Social capital in three business forms has been reviewed. While social capital has been studied in not-for-profit organisations and at the corporate level in specific settings, there does not appear to be any literature outlining how social capital might manifest itself in a not-for-profit or a corporate in a general sense, and in a way not found in other business forms. Of the two theoretical studies on family firms, Pearson et al. (2008) is the most relevant as it provides an insight into how social capital might operate, in a general sense, in a family firm. The literature review failed to uncover any study that provides a new generic framework for studying social capital in any of the three business forms, nor was any literature examining social capital in the budgeting process of any of the three

business forms located. Whilst this section has presented social capital as a favourable feature of organisational life, this is not always so. The following section examines the 'dark side' (Putnam, 2000) of social capital.

#### **2.4.5 The dark side of social capital.**

It is tempting to consider social capital only in a positive light, and to think the richer the social capital, the better off individuals in an organisation will be. However, the social capital literature documents a dark side (Putnam, 2000) where social capital can become a social liability (Gabbay & Leenders, 1999, 2001). Gargiulo and Benassi (1999) note that, at times, social bonds may "have detrimental effects for a manager and produce social liability, rather than social capital" (p. 298). This section discusses negative aspects of networks, trust, norms, and a shared context.

##### **2.4.5.1 Networks.**

The social capital literature discusses four areas where networks can have a negative effect. These include: the presence of strong ties; exclusion of outsiders; the cost of maintaining networks; and, strong informal networks. In groups with strong ties — a characteristic of rich social capital — long-standing ties and ways of doing things may cause resistance to change and impede the flow of new information into the group (Leana & Van Buren, 1999) resulting in narrow-mindedness and inertia (Adler & Kwon, 2002). Strong ties within a group can potentially lead to unhealthy group dynamics. Cohen and Prusak (2001) describe how strong ties within a group may result in strong group identification, loyalty, and shared beliefs which may become a problem if the loyalty and strong identification means ideas remain unchallenged and the tough questions remain unasked. Strong ties between group members may also lead to clannish behaviour, suspicion or hatred of outsiders, and narrow-mindedness (Cohen & Prusak, 2001; Fukuyama, 2001).

While strong ties, trust, and shared norms can help build a group, the same features of social capital can result in the group excluding entry to "outsiders" (Portes, 1998, p. 15), while reinforcing existing social groups

(Putnam, 2000), and creating an “in” and an “out” group (Subramaniam et al., 2013, p. 970). Cohen and Prusak (2001) note that an old-boys network may have all the features of a successful social capital network. Such networks can be exclusionary, and may exclude women or those from particular ethnic or religious groups. Timberlake (2005) claims women are often excluded from business-related social networks, and when women do access the networks, they are not as effective for women as they are for men.

Building and maintaining networks and the relationships in networks can be costly in terms of time and resources (Adler & Kwon, 2002; Leana & Van Buren, 1999; Nahapiet & Ghoshal, 1998). Building networks requires an investment in creating and maintaining relationships, and requires an investment of time for repeated interaction to maintain and renew the relationships so that the relationships remain productive (Adler & Kwon, 2002; Huppi & Seemann, 2001; Nahapiet & Ghoshal, 1998). The more complex the network, the greater the cost of maintaining the network (Nahapiet & Ghoshal, 1998). Some networks and relationships can take so much time to maintain that the cost of maintenance exceeds any benefit received. Adler and Kwon (2002) cite a study where a project team with strong ties to other units took longer to do their work than those with weaker ties. The information benefits obtained from the strong ties with other units were outweighed by the cost of maintaining the ties in terms of longer task completion time.

Strong informal networks, often referred to as the ‘grapevine’, have the potential to cause problems for management. Whilst informal networks can benefit an organisation, the grapevine can also be a source of gossip and rumours. For example, decisions made at managerial level can be transmitted, via the grapevine, ahead of time (Gabbay & Leenders, 2001). This leakage can be a problem if information, including budgeting decisions, occurs prior to the people concerned being informed. There is also the potential for strong networks of employees to hinder management attempts to redesign business processes (Gabbay & Leenders, 2001) such as changes to the budgeting process.

#### **2.4.5.2 Trust.**

Loyalty and trust may lead to cooperative behaviour which, when used for the right purposes, is useful to the organisation. Trust can also have negative outcomes, as loyalty, trust, and shared norms are also characteristics of less productive groups such as street gangs, the Ku Klux Klan, and the Mafia (Cohen & Prusak, 2001; Fukuyama, 2001).

#### **2.4.5.3 Norms.**

Like networks and trust, norms among a group of people also have disadvantages. There is the potential for a business to have negative outcomes on society, despite strong 'positive' norms among senior management. An example is the British bank, HBOS. One of the Board members has this to say about his experience:

I have no doubt that the HBOS Board was by far and away the best board I ever sat on. My recollection of the culture and characteristics of the Board was one of openness, transparency, high intellect, integrity, good working relationships between the Chairman and Chief Executive .... (Parliamentary Commission on Banking Standards, 2013, p. 29)

Nonetheless, HBOS failed in 2008, requiring £20 billion of taxpayers' money to bail it out (Luyendijk, 2013).

Strong norms may also result in limiting "openness to information and to alternative ways of doing things", and contribute to a "collective blindness" (Nahapiet & Ghoshal, 1998, p. 245). Strong norms can restrict access to a wide variety of sources of ideas and information (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998). By restricting the flow of new information and ideas, a group risks becoming overly cohesive and descending into rigidity and 'groupthink' (Cohen & Prusak, 2001; Nahapiet & Ghoshal, 1998). Leana and Van Buren (1999) note that groupthink has the potential to affect decision-making in top management as strong social relations may result in team members not expressing their view until those with power do so.

The Board of Enron is an example of a group where collective blindness and groupthink prevailed, with a negative outcome for shareholders and the business community. It seems many of the 15 outside board members (out of a total board of 17) had “long personal and business associations” with the CEO and Chairman, Ken Lay, and “were considered loyal supporters of his policies” (Lawrence, 2003, p. 15). These factors, along with 10 of the outside directors having a conflict of interest (Lieberman, 2002), and the board’s trust in the ‘integrity and competence’ of senior Enron management (Investigations of the Committee on Governmental Affairs United States Senate Congress, 2002) resulted in a lack of probing questions (Fox, 2003), and a culture of acquiescence (Bader, 2003). Enron’s collapse and subsequent bankruptcy was the largest business failure in the history of the United States (Lawrence, 2003).

In some situations, the abuse of norms can restrict knowledge and information flow. Edelman et al. (2004) describe how the abuse of norms of reciprocity, where junior staff were not given credit for information passed on to senior staff, resulted in junior staff adopting defensive strategies. Leana and Van Buren (1999) suggest a cost of strong norms and values is the need to induct new staff into organisational norms and values.

#### ***2.4.5.4 Shared context.***

There are negative outcomes associated with a shared context. Strong cognitive ties that help the sharing of knowledge within a group can create barriers with other groups in the organisation, effectively reducing creativity and innovation (Edelman et al., 2004). Nahapiet and Ghoshal (1998) suggest the creation and maintenance of a shared context in an organisation can be costly, but do not elaborate on the cost involved.

#### ***2.4.5.5 Summary.***

The dark side of social capital has been examined in the areas of networks, trust, norms, and a shared context. Networks can potentially become a social liability due to strong ties, the exclusion of outsiders, the

cost of maintaining the network, and the presence of strong informal networks. Whilst the loyalty and trust that often lead to cooperative behaviour are generally viewed as beneficial, they are also features of groups that have less productive outcomes for society. Likewise, strong positive norms among a group of people can potentially have negative societal outcomes. Strong norms in an organisation may contribute to a collective blindness and groupthink. A shared context can also potentially have negative outcomes, as strong cognitive ties within a group can create barriers with other groups. Whilst it is important to be aware of the potential for the dark side, or negative social capital, the focus of this thesis is on the influence of social capital on the budgeting process. The following section reviews the sparse literature on social capital and budgeting.

#### **2.4.6 Social capital and budgeting.**

Three papers were located that refer to social capital and budgeting; however, none of the three papers studies social capital in the budgeting process, which is the focus of this thesis. Chenhall et al. (2010) research social capital in MCS in an Australian nongovernment organisation. They adopt three taxonomies of MCS, two of which include budgets as a component of the MCS. Budgets are included as a part of a formal management control system (Chenhall & Morris, 1995), and as part of a diagnostic control system, one of Simons' (1995) four levers of control (Chenhall et al., 2010). However, the focus of their study is on links between MCS and social capital, with budgeting addressed indirectly as a component of a MCS. Vieira et al. (2013) investigate the interplay between MCS and social capital in a social enterprise in Vietnam. In doing so, they adopt a similar approach to Chenhall et al. (2010). Neither Chenhall et al. (2010) nor Vieira et al. (2013) addresses the budgeting *process* per se or the influence of social capital on the budgeting process.

Das Neves Bodart (2010) provides a theoretical view on the influence of social capital in participatory budgeting. However, his view on participatory budgeting involves providing citizens with an opportunity to

allocate part of a municipal or public budget (Wampler, 2007). In management accounting, and in this thesis, a participative budget, or participation in the budgeting process, is concerned with preparing a budget “with the full cooperation and participation of managers at all levels” (Garrison & Noreen, 2003, p. 377).

No studies investigating social capital in the budgeting *process* of an organisation were located.

#### **2.4.7 Summary.**

This thesis argues that social capital in a community has a parallel in an organisation. In other words, features of social capital found in a community setting are relevant to an organisation. Four approaches to studying social capital in an organisation have been outlined, with Nahapiet and Ghoshal’s (1998) framework emerging as the most comprehensive for analysing social capital in a business setting. The dark side, or negative aspects of networks, trust, norms, and a shared context, are outlined. The sparse literature on social capital and budgeting is examined. The author found no studies focusing on social capital in the budgeting *process* of an organisation.

### **2.5 Conclusion**

This chapter has reviewed the literature on: budgeting; trust, as it relates to budgeting; and, social capital, as it relates to organisations and budgeting. Since the seminal work of Hopwood (1972), much of the research on budgeting has been positivistic in nature, and has largely ignored the influence of social and human factors. Several authors have called for case-based, qualitative studies to address the overemphasis on quantitative research on budgeting. Trust among those involved in the budgeting process is important in developing open communication, integrity, and mutually beneficial working relationships during budgeting. Social capital was initially a sociological concept which has been more recently adapted to a business setting. Nahapiet and Ghoshal’s (1998) framework for analysing social capital in the creation and exchange of

knowledge in an organisation is seminal, and has been applied to many other areas of business. Although four frameworks for analysing social capital in an organisation were identified, none was developed in a financial context, and none has helped to clarify which aspects of social capital are relevant to budgeting. Likewise, no study has investigated the influence of social capital in the budgeting process of an organisation, a lacuna this thesis seeks to begin to fill. Nowhere does the literature address the following questions:

1. Does social capital influence the budgeting process in an organisation?
2. Does the budgeting process influence social capital in an organisation?
3. Are there any differences in the way social capital manifests itself in the budgeting process across the three case study organisations?

The next chapter — methodology and methods — will outline the approach used in this thesis to answer the research questions.

## **3. Methodology, Methods, and Theory**

### **3.1 Introduction**

Laughlin (1995) argues that the researcher should make “deliberate choices” (p. 65) on the methodological and theoretical position of an empirical study prior to the start of the study. Accordingly, this chapter outlines the choice of philosophical paradigm, research method, data collection method, theoretical framework, and data analysis method used in this thesis. Section 3.2 outlines the choice of methodology and methods. The theoretical framework adopted in this thesis is explained in section 3.3. How the data were analysed is outlined in section 3.4, while section 3.5 summarises the chapter.

### **3.2 Choice of Methodology and Methods**

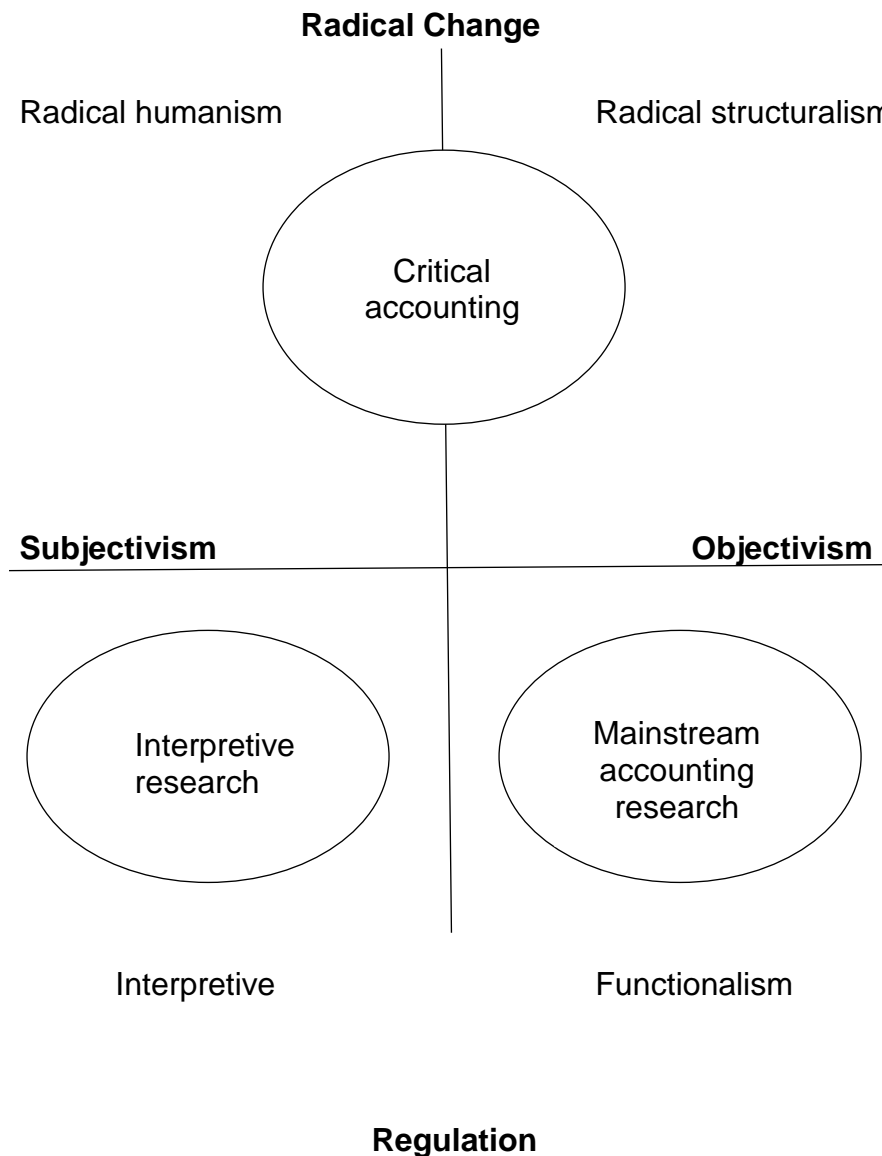
This section examines the choice of philosophical paradigm, and the choice of research and data collection methods adopted in this thesis.

#### **3.2.1 Philosophical paradigm.**

Interpretivism was chosen rather than critical or mainstream accounting research as the paradigm best suited to answering the research questions. Interpretivism assumes a subjective view of reality, is suited to studying subjectively created social phenomena (Ryan, Scapens, & Theobald, 2002), and facilitates the study of how individuals perceive reality.

Interpretivism is concerned with reporting a socially created phenomenon ‘as it is’, and deals with “how society is held together” (Ryan et al., 2002, p. 40). Hence, it refers to regulation and is not concerned with introducing radical change (Burrell & Morgan, 1979). As can be seen from Figure 3.1, this paradigm is located in the bottom left quadrant of Ryan et al.’s (2002) classification of accounting research.

The interpretive paradigm was considered to be appropriate for studying the influence of social capital during the budgeting process, because social capital is a subjectively created phenomenon. Interpretivism also



*Figure 3:1. Classification of accounting research.*

Source: *Research Method and Methodology in Finance and Accounting* (p. 40), by B. Ryan, R. W. Scapens, and M. Theobald, 2002, London, England: Thomson. Reproduced with permission of Thomson Reuters (Professional) Australia Limited, [www.thomsonreuters.com.au](http://www.thomsonreuters.com.au).

enables the study of the process by which individuals perceive reality, in this case how individuals subjectively perceive the influence of social capital on the budgeting process. Ryan et al. (2002) contend the interpretive paradigm is best suited to understanding the social nature of accounting, as the interpretive paradigm deals with making sense of the

social nature of life. Likewise, Broadbent and Unerman (2011) indicate (in-depth) interpretive studies are required to provide “a credible evidence base” (p. 16) for insight into social aspects of accounting such as budgeting.

Chua (1986) outlines the assumptions regarding ontology and epistemology underpinning interpretive accounting research. Regarding ontology, interpretivism assumes social reality is a social creation which is created subjectively and objectified through human interaction. Actions have meaning and intention, and are grounded in the social and historical context. Social order is assumed, and conflict is mediated through shared social meanings. Concerning epistemology, explanations of human intent are sought, and three criteria are used to assess the adequacy of these explanations (or theory): 1) logical consistency, or the researchers’ use of clarity and logic; 2) subjective interpretation; and, 3) agreement with the common-sense interpretation provided by actors.

Eschewing solipsism — an extreme view of interpretivism and subjective idealism where a physical world has no independent reality and is a creation of the mind (Burrell & Morgan, 1979) — this thesis acknowledges the presence of an external, physical reality that is shared with and agreed upon by others (Hopper & Powell, 1985). Central to the interpretive paradigm is the notion that “social reality must be *interpreted* (author’s emphasis) by the researcher” (Scapens, 1990, p. 277). As researchers, in a general sense, are not objective, unbiased, neutral observers, subjectivity is unavoidable. Subjectivity arises when researchers’ values and worldviews are inevitably brought into the study (Creswell, 1998). To address the issue of subjectivity in this thesis, I have taken care not to impose personal values on the research and have sought to faithfully report interviewees’ responses in the context in which they were intended by the interviewee. I have sought to understand the ‘insider’s’ perspective in the context of the organisation and its operating environment. Having outlined the chosen philosophical paradigm, the selection of a research method is now addressed.

### **3.2.2 Research method.**

There are a number of possible research methods within the interpretive paradigm, for example, ethnography and case studies. A multiple-site case study was considered best suited to answering the research questions, because it allows for a rich study of the influence of social capital on budgeting in each organisation. A case study also allows social capital during budgeting to be studied in its organisational context, and thus provides thick description (Geertz, 1973). The case study takes a holistic approach (Scapens, 1990), and takes into consideration the social, historical, and economic factors influencing social capital during budgeting. Furthermore, studying social capital during the budgeting process in three different organisations allows comparison to be made across the three organisations.

Organisations were selected on the basis on their business form. Three business forms (a not-for-profit, a private company, and a public company) were chosen so that the influence of social capital on budgeting in the not-for-profit organisation could be compared with its influence in the two profit-orientated organisations. The comparison of social capital in the budgeting process across the three case study organisations addresses the third research question:

Are there any differences in the way social capital manifests itself in the budgeting process across the three case study organisations?

A loose form of theoretical sampling (Baxter & Chua, 1998) was used to select the three case study organisations. Organisations were targeted on the basis of characteristics thought to be useful to the study. The not-for-profit church had been used as a case study organisation in the author's previous research, and gave its consent to be involved in this investigation. When selecting the private and public companies, a short list of potential organisations was compiled. Information about them came from reading local newspapers, searching the Internet, and through word of mouth. Companies on the list were selected on the basis of their location and size. Larger rather than smaller companies were deemed appropriate as larger

companies were likely to have more managers involved in budgeting, and were thus more likely to provide a rich source of data. When contacting the organisations, a letter requesting access was sent to the most senior person in each organisation (see Appendix 1). A follow-up phone call was made a short time after the letter had been sent. Once contact had been made and the 'gatekeeper' identified, a meeting was held with the gatekeeper to assess the company's suitability as a case study organisation. A further meeting was then held with the gatekeeper to identify those involved in the budgeting process, and to discuss the best way to contact them.

One of the difficulties of the case study method relevant to this thesis is the issue of interpreting the data (Scapens, 1990). Scapens (1990) argues that, as the case study researcher is interpreting social reality, and is not a neutral, independent observer, there may be more than one interpretation of a case study. I acknowledge my interpretation of the case study data may differ from another researcher's interpretation of the same data. To address this issue, I have endeavoured to interpret interview data from the interviewee's perspective in order to reduce researcher bias.

As I have attended the church for 27 years, I could be viewed as an 'insider', as I have an understanding of the church, its *modus operandi*, and its values. My association with the church raises the issue of reflexivity. My perception is that my association with the church resulted in interviewees speaking more openly. Corbin Dwyer and Buckle (2009) indicate that such an acceptance of the interviewer by interviewees provides the interviewer with "a level of trust and openness" (p. 58) that may have not been present otherwise. However, there are some disadvantages to having an insider's perspective. These disadvantages include: making assumptions and not seeking clarification; and the interviewer assuming s/he knows interviewees' views and issues (Unluer, 2012). To mitigate these potential disadvantages, I asked follow-up questions to understand a situation/experience/event from the interviewees' perspective. I asked for clarification where necessary, so that I understood what interviewees were saying, not what I thought they

were saying. In the section that follows, the method used to collect data is explained.

### **3.2.3 Data collection method.**

Ethical approval was obtained from the Waikato Management School Ethics Committee in May 2010. A copy of the email, and letter, granting ethical approval are included in Appendix 2 and Appendix 3 respectively. Appendices 4 and 5 contain the participant information sheet and the participant consent form which were given to the interviewees prior to interviewing them.

Interviews were selected as the principal method used to collect data for this thesis. Indeed, Broadbent and Unerman (2011) identify the interview as a key method in interpretive accounting research. Interviews are congruous with the choice of interpretive methodology, as they allow rich data to be collected on interviewees' inner subjective world (Hopper & Powell, 1985). Semistructured interviews, where there are previously prepared interview questions but no requirement to adhere strictly to the order of the questions (Myers, 2013), were used. The use of semistructured interviews allows for flexibility and improvisation during the interview (Myers, 2013). Interview data were supplemented with documentary evidence obtained from each organisation, its website, and from local newspapers.

The majority of the 43 interviews took place in either the interviewee's office, or in a quiet meeting room. Three interviews were conducted in a café chosen by the interviewee. Interviews took place over a 16-month period from May 2012 to August 2013. One follow-up interview took place at the private company in November 2015. The follow-up interview was undertaken to gather information needed to complete the IT case study in chapter 5. Table 3.1 shows the number of junior, senior, and executive staff from each case study organisation who took part in this research. In addition, the job title for interviewees in each case study organisation, along with the date and length of each interview, are included in Appendices 6, 7, and 8.

Table 3:1. Level of seniority of interviewees

<i>Case study organisation</i>	<i>Level of seniority</i>		
	Junior	Senior	Executive
Not-for-profit	2	3	9
Private company	9	3	4
Public company	3	5	-*

\*Although there were no interviews with executive managers, one junior and one senior manager attended the meeting at Head Office, where the budget was discussed with executive managers.

There was restricted access to some senior managers. At the private company, I was able to interview only one of the three board members. A similar situation was encountered at the public company, where I was unable to interview the general manager or any of the finance team at Head Office. At each organisation, I agreed to limit interviews to 1 hour, as managers were busy and attending an interview took time away from their job. It was a challenge to build rapport and trust, and to obtain in-depth answers during an hour-long interview. To help overcome time restraints, I endeavoured to interview as many of those involved in the budgeting process at each organisation as possible, and to ensure a representative sample of managers ranging from junior managers to senior managers was interviewed. By “spreading the net” (Moll, Major, & Hoque, 2006, p. 387) and interviewing a range of managers involved in budgeting in each organisation, it was envisaged that a richer and fuller picture of budgeting would emerge. Myers (2013) terms this approach of gaining a breadth of opinion ‘triangulation of subjects.’

Member checking of interview transcripts was undertaken. Interview transcripts were emailed to interviewees to obtain their agreement that the

interview transcript was a fair record of the interview. Issues arising from the transcripts were clarified at this stage and any changes were made prior to data analysis. Direct quotations from the interviews were used during the data analysis process, rather than relying on a précis or an interpretation of what the interviewee had said.

### **3.3 Theoretical Framework**

This section examines relevant aspects of social capital theory that provided the context within which the final 18 social capital interview questions were developed. Nahapiet and Ghoshal's 1998 framework for analysing social capital is explained, followed by a discussion on how their framework has been adapted for this thesis. The rationale underpinning the interview questions is presented, followed by details of the ethical approval process.

#### **3.3.1 Choice of framework.**

An adapted version of Nahapiet and Ghoshal's (1998) framework of social capital was selected as the most suitable framework for answering the research questions. Their framework allows the study of social capital within (internal to) an organisation (Subramaniam et al., 2013), and has been applied empirically to a number of business forms such as family firms (Pearson et al., 2008); corporates (Hatzakis et al., 2005); and, small and medium enterprises (Fuller & Tian, 2006). Nahapiet and Ghoshal's inclusion of a cognitive dimension allows for a more comprehensive analysis of social capital in an organisation, as it takes into account aspects of social capital arising from a shared context such as shared vocabulary. Nahapiet and Ghoshal's (1998) framework can be viewed as a "skeletal theory" (Laughlin, 1995, p. 81), requiring "empirical flesh" to make it "meaningful and complete" (Laughlin, 1995, p. 83). In line with Laughlin (1995), this thesis recognises that the expansion of the skeletal theory is not always guaranteed. The section that follows outlines Nahapiet and Ghoshal's (1998) framework of social capital in more detail than was provided in the literature review chapter (chapter two).

### 3.3.1.1 Nahapiet and Ghoshal's (1998) framework.

Nahapiet and Ghoshal's (1998) framework is displayed in Table 3.2. In their framework, social capital is viewed as occurring in three clusters or dimensions: the structural; the relational; and, the cognitive. They acknowledge that the three dimensions are not separate but are highly interrelated entities.

Table 3:2. Nahapiet and Ghoshal's (1998) framework

<b>Structural Dimension</b>	<b>Relational Dimension</b>	<b>Cognitive Dimension</b>
Network ties	Trust	Shared language
Network configuration	Norms	Shared narratives
An appropriable organisation	Obligations and expectations	
	Identification	

The structural dimension concerns “the overall pattern of connections between actors – that is, who you reach and how you reach them” (Nahapiet & Ghoshal, 1998, p. 244). This dimension consists of three elements: network ties; network configuration; and, an appropriable organisation. Network ties work on the premise that ““who [sic] you know” affects “what you know”” (Nahapiet & Ghoshal, 1998, p. 252). Efficient network ties provide information benefits in terms of access (receiving valuable information and knowing who to pass it on to); timing (receiving information sooner than others); and, referrals (the provision of information on opportunities to others in the network). Network configuration relates to the configuration of network ties, and impacts the accessibility of information. Nahapiet and Ghoshal (1998) argue a sparse network of diverse contacts may provide more information benefits than a dense network of less diverse contacts. An appropriable organisation occurs

when social capital such as ties, norms, and trust developed in one setting can be transferred to another setting.

The relational dimension refers to “those assets created and leveraged through relationships” (Nahapiet & Ghoshal, 1998, p. 244). This dimension is concerned with personal relationships that develop over a period of time. There are four elements to the relational dimension: trust; norms; obligations and expectations; and, identification. Trust is the confidence that the end result of another person’s intended action will be fitting from ‘our’ perspective. Norms represent “a degree of consensus in the social system” (Nahapiet & Ghoshal, 1998, p. 255). Norms noted by Nahapiet and Ghoshal (1998) include openness, teamwork, cooperation, transparency, and a tolerance of failure. Obligations involve “a commitment or duty to undertake some activity in the future” (Nahapiet & Ghoshal, 1998, p. 255), and can be thought of as a ‘credit slip’ held by one individual to be fulfilled by another (Nahapiet & Ghoshal, 1998).

Expectations are obligations that exist between two people, as there is an expectation that the ‘credit slip’ will be honoured. The fourth element, identification, relates to how individuals identify or “see themselves as one” (Nahapiet & Ghoshal, 1998, p. 256) with others or with a group.

Identification can occur through group membership, or where an individual adopts the values and standards of other people or groups. Identification results in a heightened concern for the group, and may enhance cooperation.

The cognitive dimension has to do with “those resources providing shared representations, interpretations, and systems of meaning among parties” (Nahapiet & Ghoshal, 1998, p. 244). This dimension focuses on those aspects of social capital that provide a shared context in an organisation, for instance, a shared language and vocabulary, and shared narratives (myths, stories, and metaphors). Shared language such as shared terminology enables those in a particular field to communicate more easily. Shared narratives provide an interpretation of events and function to transfer tacit experience and knowledge. Nahapiet and Ghoshal’s (1998) framework was developed in the context of the creation and sharing of

intellectual capital. Thus, it needed to be adapted for the purpose of studying the influence of social capital on the budgeting process in the three case study organisations.

### **3.3.1.2 A working definition of social capital.**

In conjunction with adapting Nahapiet and Ghoshal's (1998) framework, I developed a 'working definition' of social capital. It became important to develop a working definition because, despite social capital having been studied across a number of disciplines (Theingi, Purchase, & Phungphol, 2008), and fields (Woolcock, 2010), there is still no agreed definition of social capital (Woolcock, 2010). Adler and Kwon (2002), for example, document 23 definitions of social capital used by social scientists alone.

The wide range of disciplines social capital has been studied in, along with the nebulous (Adler & Kwon, 2002; Gabbay & Leenders, 2001; Leana & Van Buren, 1999), and multidimensional (Lee, 2009; Nahapiet & Ghoshal, 1998; Sanchez-Famoso et al., 2013) nature of social capital, has resulted in researchers developing definitions of social capital that are specific to their study. This thesis adopts a definition of social capital for the budgeting process in not-for-profit and profit-orientated organisations. As outlined in section 1.1.1, in this thesis, social capital is defined as:

The benefit(s) that arise from meaningful connections between people, supportive working relationships, norms, values, and a shared context that makes it easy for people to work together.

While I reviewed the key elements of the most widely used definitions in the social capital literature when developing this working definition, I considered that they were too broad and not suited to defining social capital in the budgeting process within an organisation. The working definition for this thesis drew from Cohen and Prusak (2001), and was regarded as being more applicable to the topic of this thesis. This working definition served to assist the development of the interview questions, and reflected my understanding of the influence of social capital on the

budgeting process prior to the fieldwork. Furthermore, the definition aligns with Nahapiet and Ghoshal's (1998) framework.

### **3.3.1.3 *Defining the budgeting process***

As outlined in section 1.1.1, the definition of budgeting used in this thesis incorporates planning and control, as well as actions undertaken by managers to execute the budget and meet budget targets. The notion that the budgeting process includes managers' actions to meet budget targets is supported by the budgeting literature. Wilson and Chua (1993) consider that taking "appropriate corrective action" (p. 270) is part of the budget feedback aspect of control. Likewise, Parker et al. (1989)<sup>6</sup> indicate that "the ability to take effective corrective action, to reduce the deviation of actual performance from desired performance" (p. 47) is a necessary part of budget control. Furthermore, in empirical studies, both Hopwood (1972), and Otley (1978) found that managers took actions (albeit in negative ways) in an effort to meet budget targets. Before outlining the development of the interview questions on the topic of social capital influencing the budgeting process, I will first take a step back and explain the purpose and format of the initial interview undertaken to obtain background information on the budgeting process.

### **3.3.1.4 *Background interview questions.***

At each organisation, the senior manager responsible for the budgeting process was interviewed using questions designed to obtain background information on the budgeting process. Table 3.3 details the job titles for each senior manager interviewee, by organisation.

At each organisation, the interview to obtain background information on the budgeting process was undertaken prior to interviewing managers on the influence of social capital on the budgeting process. In this interview, the questions covered the preparation, approval, and monitoring of the budget, as well as any challenges encountered during these processes.

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<sup>6</sup> Parker et al. (1989) draw on Otley and Berry (1980).

Table 3:3. Senior managers interviewed at each organisation

<b>Organisation</b>	<b>Manager</b>
Not-for-profit	Finance Administrator
Private company	General Manager
Public company	Finance Manager

The questions also enquired about the importance of the budget in achieving the aims of the organisation, the transparency of budget-related information, the presence of budget-related KPIs, and any monetary incentives attached to attaining the KPIs. These questions provided context for the questions on the influence of social capital on the budgeting process in each organisation. In all three organisations, the senior manager was interviewed a second time. This time questions asking about the influence of social capital on the budgeting process were used. The background questions on the budgeting process are contained in Appendix 9. Once the background information interview had been completed, I then interviewed managers involved in budgeting to obtain their subjective reality on the influence of social capital on the budgeting process.

### **3.3.1.5 Social capital interview questions.**

The first five questions in the interview schedule provided background information on the involvement of the interviewee in the budgeting process. The five introductory questions also provided context for the remainder of the interview (see Appendix 10 for the social capital interview questions).

The first question, “Tell me about your role in the budgeting process in this organisation”, was an ice-breaker designed to get interviewees talking about a familiar topic, i.e., the interviewee’s involvement in the budgeting process. This question also helped build rapport with interviewees. Questions 2 and 3 were designed as cognitive interview questions (Condie,

2012). This approach to obtaining information was developed for use by the police when interviewing witnesses and it is of particular use for recalling detailed description of historical events.

Question 2<sup>7</sup> was a “Report Everything” cognitive interview question (Condie, 2012, p. 171), where interviewees were asked to describe their involvement in the budgeting process, step by step, from the beginning of the process to the end. Question 3<sup>8</sup> used a “Reverse Order” cognitive interview technique (Condie, 2012, p. 171). Interviewees were requested to recall their involvement in the budgeting process backwards, step by step, from the end to the beginning. The purpose of changing the order from the end to the beginning was to obtain information that might unwittingly have been omitted from the account given in question 2, because changing the order uses a different pathway for retrieving information (Condie, 2012). Questions 4 and 5 served to gain further background information on the budgeting process, specifically where interviewees viewed the budgeting process to be located on a continuum from top down to bottom up (question 4), and on a continuum from formal to informal (question 5). In the next sections, the adapted theoretical framework is explained.

### **3.3.1.6 *The adapted framework.***

Other researchers such as Butler and Purchase (2008), and Fuller and Tian (2006) have adapted Nahapiet and Ghoshal's (1998) framework to the context of their study. I have taken a similar approach in adapting Nahapiet and Ghoshal's (1998) framework to budgeting. The adapted framework used here draws from both Nahapiet and Ghoshal's (1998)

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<sup>7</sup> Question 2 reads “Tell me about your involvement in the budgeting process, step by step, from the beginning of the budgeting process, to the end.”

<sup>8</sup> Question 3 reads “Starting at the end of your involvement in the budgeting process, could you please retrace your role in the budgeting process backwards, step by step, from the end of your involvement to the beginning.”

framework and social capital theory, and was used to develop the interview questions on the influence of social capital on the budgeting process. While the adapted framework also drew from the working definition of social capital outlined in section 3.3.1.2, Nahapiet and Ghoshal's (1998) three dimensions of social capital were retained in the adapted framework. The next three sections examine the adapted framework in more detail, and the interview questions arising from each dimension are discussed.

#### *3.3.1.6.1 Structural dimension.*

Nahapiet and Ghoshal's (1998) structural dimension encompasses network ties, network configuration, and an appropriable organisation. My adapted framework added a fourth dimension – the provision of physical spaces where staff could connect with one another. This dimension was drawn from Cohen and Prusak (2001), and was included because the provision of spaces where staff can meet and talk informally has the potential to facilitate the building of working relationships which may influence budgeting. Table 3.4 provides a comparison of Nahapiet and Ghoshal's (1998) structural dimension and the adapted structural dimension. The structural dimension is discussed in the context of budgeting in more detail.

#### *Network ties*

Networks are a common theme in the social capital literature. In the context of budgeting, many of the formal network ties are likely to be a function of job title. Many social capital relations are outlined in job descriptions, and specify supervisory and information sharing responsibilities (Knocke, 2009). Other types of formal networks may exist that indirectly influence the budgeting process such as a community of practice (Lave & Wenger, 1991) where those involved across departments in the same job meet to share ideas and knowledge. A low staff turnover reinforces formal (and informal) network ties and strengthens social capital, as social capital is reliant on stability and continuity in the social structure (Leana & Van Buren, 1999; Nahapiet & Ghoshal, 1998).

Table 3:4. Comparison of the structural dimension

<b>Nahapiet and Ghoshal's (1998) framework</b>	<b>Adapted framework used in this thesis</b>
<p><i>Structural Dimension</i></p> <ul style="list-style-type: none"> <li>• Network ties</li> <li>• Network configuration</li> <li>• An appropriable organisation</li> </ul>	<p><i>Structural Dimension</i></p> <ul style="list-style-type: none"> <li>• Network ties               <ul style="list-style-type: none"> <li>○ Formal network ties</li> <li>○ Informal network ties</li> </ul> </li> <li>• Network configuration               <ul style="list-style-type: none"> <li>○ Closure</li> <li>○ Bridging/bonding</li> </ul> </li> <li>• An appropriable organisation</li> <li>• Physical spaces for people to connect</li> </ul>

As managers work with each other over a number of budget cycles, low staff turnover also allows those involved in budgeting to develop strong ties.

In organisations, informal networks exist alongside the formal networks (Huppi & Seemann, 2001). Their function is to bring the 'right people' into contact with each other (Peters & Waterman, 1982). These informal networks, and associated events, may nurture existing working relationships among those involved in budgeting. They may also bring those involved in budgeting into contact with others in the organisation who are not directly involved in budgeting, but who can help them with their budgeting tasks. The presence of strong informal networks can encourage staff to remain with an organisation, as they enjoy their work community and appreciate their work colleagues and friends (Cohen & Prusak, 2001), further enhancing social capital. The two aspects to network ties relevant to this thesis are shown in Figure 3.2.

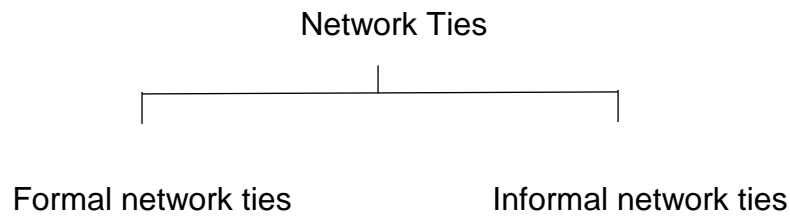


Figure 3:2. Network ties

*Network configuration*

Two aspects of network configuration are relevant to this thesis: network closure (Coleman, 1988); and, bridging and bonding social capital (Putnam, 2000). These two aspects of network configuration are shown diagrammatically in Figure 3.3.

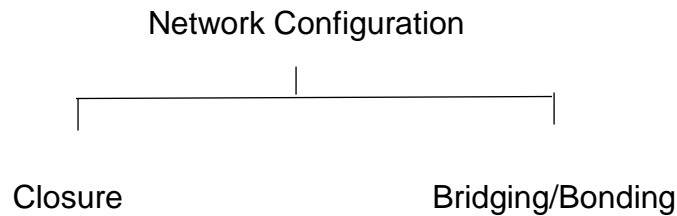


Figure 3:3. Network configuration

Closure in a social network occurs when there is an effective boundary around those in the network (Coleman, 1988). An organisation can be described as having closure in that it is a social network, or community, that has social, financial, and legal boundaries (Nahapiet & Ghoshal, 1998). Ties between people in the organisation ensure expected behaviour occurs, and, due to the presence of a boundary, actions contravening expected behaviour can be sanctioned (Coleman, 1988; Portes, 1998). Closure is relevant to budgeting because closure in social networks in an organisation is necessary for trust and budget-related norms to be effective.

A network may function as a bridge or a bond. Bridging social capital occurs when a network bridges across groups and is useful for obtaining information from a variety of sources. In contrast, bonding social capital occurs when there are strong ties among a group of people (Adler & Kwon, 2002; Putnam, 2000). Here the bonding forms a type of social capital

'glue' (Anderson & Jack, 2002). Bonding and bridging social capital are not either/or categories. According to Putnam (2000), "bonding and bridging are not "either-or" categories into which social networks can be neatly divided, but "more or less" dimensions along which we can compare different forms of social capital" (p. 23). Adler and Kwon (2002) suggest bonding and bridging social capital can occur simultaneously. Of the two, bonding social capital is more relevant to budgeting, as it is likely to be a feature of close working relationships among those involved in the budgeting process.

#### *An appropriable organisation*

Both Coleman (1988), and Nahapiet and Ghoshal (1998) refer to an appropriable organisation. This occurs when elements of social capital, developed in one setting, can be transferred to another setting. Nahapiet and Ghoshal (1998) provide two examples which serve to illustrate how an appropriable organisation functions. First, trust developed in families and religious organisations can be transferred into the workplace. Second, ties built in personal relationships may develop into business relationships. Trust and ties developed by managers outside the workplace may be brought into the workplace and influence their role in the budgeting process.

#### *Physical spaces to connect*

Organisations can make it easier for employees to connect by physically configuring work spaces to encourage employees to gather, talk, and meet informally (Cohen & Prusak, 2001). Work places can be organised to promote community through the provision of staff rooms, alcoves, and similar communal areas where staff can meet (Cohen & Prusak, 2001). The use of such communal spaces may influence budgeting as they provide areas for staff and managers to meet informally and build relationships which have the potential to impact the budgeting process. However, such social interactions require mutuality, trust, and shared understanding to flourish (Cohen & Prusak, 2001).

Workspaces can be configured to help people interact by having “open doors, fewer walls, and fewer offices” (Peters & Waterman, 1982, p. 262). When people are located physically close to each other, they are more likely to interact and form ties (Kwon & Adler, 2014). In contrast, the presence of executive floors and executive dining rooms sends signals to staff about the lack of importance placed on egalitarianism and community (Cohen & Prusak, 2001). Cohen and Prusak (2001) give an example of an American corporate that designed its new building to enable people to see each other, thereby enhancing connections between people. In this organisation, escalators replaced lifts. There were also centrally-located kitchens and communal spaces on each floor to allow people to mix and talk with each other.

#### *Social capital interview questions*

The adapted framework was used to develop interview questions for the structural dimension. The questions were designed to start a conversation that would enable me to understand interviewees’ subjective reality on how the structural dimension influenced social capital during budgeting. The influence of the structural dimension of social capital on budgeting is addressed in questions 6 to 9 (see Appendix 10 for the social capital interview questions). The aim of question 6<sup>9</sup> was to prompt a conversation on how formal and informal network ties, network configuration, and an appropriable organisation influence budgeting. Question 7<sup>10</sup> aimed to discuss the provision of physical spaces in the workplace where staff

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<sup>9</sup> Question 6 reads “Are there opportunities available in this organisation for people to meet and get to know others from different parts of the organisation? Do these opportunities affect your role in the budgeting process?”

<sup>10</sup> Question 7 reads “Is there space(s) set aside for people to meet either formally or informally?”

could meet formally or informally. The intent of questions 8<sup>11</sup> and 9<sup>12</sup> was to discuss how network ties, network configuration, and an appropriate organisation influence the budgeting process. The next section examines the second dimension of the adapted framework, the relational dimension.

*3.3.1.6.2 Relational dimension.*

The trust, norms, and identification elements of Nahapiet and Ghoshal's (1998) framework have been retained in the adapted framework. However, the obligations and expectations element has been removed. As many of the working relationships in the budgeting process are a function of job title, it was considered that obligations and expectations, in particular the notion of a 'credit slip', were not relevant to the budgeting process. Nahapiet and Ghoshal's (1998) relational dimension and the adapted framework's relational dimension are compared in Table 3.5.

*Table 3:5. Comparison of the relational dimension*

<b>Nahapiet and Ghoshal's (1998) framework</b>	<b>Adapted framework used in this thesis</b>
<p><i>Relational Dimension</i></p> <ul style="list-style-type: none"> <li>• Trust</li> <li>• Norms</li> <li>• Obligations and expectations</li> <li>• Identification</li> </ul>	<p><i>Relational Dimension</i></p> <ul style="list-style-type: none"> <li>• Trust</li> <li>• Norms</li> <li>• Identification</li> </ul>

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<sup>11</sup> Question 8 reads “In the budgeting process, there are formal reporting channels that outline who supplies information and who information is to be supplied to. Are the formal reporting channels effective in providing you with the information you need for your part in the budgeting process?”

<sup>12</sup> Question 9 reads “Are there people outside the formal reporting channels that help you in your role in the budgeting process? Who are they and how do they help?”

The relational dimension is discussed in the budgeting setting in more detail.

### *Trust*

While trust can exist in a variety of ways, this thesis focuses on what Putnam (2000) terms social trust, or trust between individuals. Trust is related to a willingness to be vulnerable, arising from a belief in the good intent, competence, capability, reliability, and perceived openness of another party. Where trusting relationships exist, people are more willing to engage socially and cooperate with others (Nahapiet & Ghoshal, 1998). Trust between those involved in budgeting is important, as it affects the smooth running and efficiency of the budgeting process.

Social capital researchers disagree on the role trust plays in producing social capital. There is a difference of opinion as to whether trust is a precondition/antecedent, a source, a component/element, or an outcome/consequence/result of social capital (Cohen & Prusak, 2001; Leana & Van Buren, 1999; Productivity Commission, 2003; Scull, 2001; Woolcock, 2001). It is not the intention of this thesis to enter into a debate about the role trust plays in producing social capital. Rather, trust is accepted as an element of social capital.

### *Norms*

Norms can be loosely referred to as informal agreements regarding expected behaviour; they represent 'the way things are done around here.' Norms are central to the budgeting process as they influence the behaviour expected by those involved in budgeting. In this thesis, organisational-specific, behavioural-based values are also viewed as norms, as they also represent expected behaviour (Cohen & Prusak, 2001; Edwards, 2004; Huppi & Seemann, 2001). Similar to trust, norms require closure in the social system (Coleman, 1988; Nahapiet & Ghoshal, 1998), because, when closure exists, sufficient ties are present to ensure the norms of the group are observed (Portes, 1998). Huppi and Seemann (2001) explain how closure and strong ties help to reinforce norms. "If you

are in a network where everybody knows everybody else, you know that if you violate the norms you have destroyed your social capital with everyone at once” (Huppi & Seemann, 2001, p. 40).

Norms may prescribe or proscribe certain actions (Coleman, 1987). To be effective, norms require appropriate sanctions. Sanctions can either reward behaviour consistent with the norm, or punish those who behave contrary to the norm (Coleman, 1987). In some situations, a norm and its associated sanction can be internalised through socialisation, so that adherence to the norm comes from within rather than being imposed from without (Adler & Kwon, 2002; Coleman, 1987). Sixteen norms identified in the social capital literature are relevant to budgeting, 7 of which are indicated by Nahapiet and Ghoshal (1998). The 16 norms are displayed in Table 3.6.

*Table 3:6. Norms relevant to the budgeting process*

<b>Norm</b>	<b>Reference(s)</b>
1. Reciprocity	Edwards (2004); Putnam (2000); Stone and Hughes (2002).
2. Cooperation	Edwards (2004); Fukuyama (2001); Nahapiet and Ghoshal (1998).
3. Trustworthiness	Edwards (2004); Putnam (2000).
4. Keeping commitments	Fukuyama (2001).
5. Reliable performance of duties	Fukuyama (2001).
6. Promotion from within (an existing employee is promoted, rather than an	Cohen and Prusak (2001).

'outsider'.)	
7. Teamwork	Nahapiet and Ghoshal (1998); Pearson, Carr, and Shaw (2008); Subramaniam, Stewart, Ng, and Shulman (2013).
8. Open disclosure of information	Nahapiet and Ghoshal (1998).
9. Tolerance of failure	Nahapiet and Ghoshal (1998).
10. Openness to criticism	Nahapiet and Ghoshal (1998).
11. Loyalty to the firm	Nahapiet and Ghoshal (1998).
12. Egalitarianism	Pearson, Carr, and Shaw (2008).
13. Honesty	Subramaniam, Stewart, Ng, and Shulman (2013).
14. Transparency	Nahapiet and Ghoshal (1998); Huppi and Seemann (2001).
15. Respect for staff	Peters and Waterman (1982).
16. Collaboration	Pearson, Carr, and Shaw (2008).

Norms act as informal controls in an organisation. They lessen the need for formal incentives and controls, reduce transaction costs, and ultimately lower the cost of doing business (Adler & Kwon, 2002; Huppi & Seemann, 2001; Productivity Commission, 2003). Senior leaders can influence norms in the workplace in two ways: through formal policies and processes such as financial bonuses (Huppi & Seemann, 2001); and, informally through their actions and the way they communicate (Cohen & Prusak, 2001; Huppi & Seemann, 2001).

### *Identification*

Identification is similar to Leana and Van Buren's (1999) term 'associability', which refers to the willingness and ability of organisational members to lay down individual goals and actions in favour of collective goals and actions. In the context of budgeting, if employees identify strongly with the organisation, they are more likely to put aside individual (budgeting) goals in favour of collective (budgeting) goals. Associability could also be applied to the putting aside of one's personal norms and identifying with (internalising) organisational norms pertinent to budgeting. The next section discusses the ways in which the three elements of the relational dimension were used to develop interview questions.

### *Social capital interview questions*

The relational dimension section of the interview questions investigated how elements of the relational dimension influence social capital during the budgeting process. Again, the interview questions were designed to start a conversation that would enable me to understand interviewees' subjective view of the relational dimension on budgeting. There are seven questions in this section – questions 10 to 16 (see Appendix 10 for the social capital interview questions). Questions 10<sup>13</sup> and 11<sup>14</sup> aimed to prompt a discussion on the quality of working relationships (including trust) interviewees have with those they work with during the budgeting process. The influence of budget-related KPIs and bonuses on working

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<sup>13</sup> Question 10 reads "In the context of your formal relationships in the budgeting process, tell me about the quality of the relationships."

<sup>14</sup> Question 11 reads "In the context of your informal relationships in the budgeting process, tell me about the quality of the relationships."

relationships was addressed in question 12.<sup>15</sup> Questions 13 to 16 related to norms and values. For this thesis, behavioural-based values are viewed as norms. Question 13<sup>16</sup> investigated the influence of formal, written workplace values and rules of conduct (norms) on budgeting. Question 14<sup>17</sup> was designed to probe the influence of unwritten values or rules on budgeting. Once again, the intention was to prompt a discussion on informal norms in the organisation. Two norms considered relevant to budgeting, that is, teamwork<sup>18</sup> and transparency of budgetary and financial information,<sup>19</sup> were specifically addressed in questions 15 and 16. Both norms were noted in the social capital literature (see Table 3.6). The section that follows examines the third dimension of the adapted framework, a shared context.

#### 3.3.1.6.3 Shared context.

A 'shared context' replaces Nahapiet and Ghoshal's (1998) cognitive dimension in the adapted framework as the term used to describe the third dimension of social capital. This change was made because a shared

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<sup>15</sup> Question 12 reads "Do you have any budget-related KPIs (with or without financial incentives)? If so, what effect do your budget-related KPIs have on your formal and informal relationships with your fellow workers in the budgeting process?"

<sup>16</sup> Question 13 reads "Does this organisation have any written values or rules of conduct? If so, how do the written values or rules of conduct affect your role in the budgeting process?"

<sup>17</sup> Question 14 reads "Does this organisation have any unwritten values or rules of conduct? If so, how do the unwritten values or rules of conduct affect your role in the budgeting process?"

<sup>18</sup> Question 15 reads "Does this organisation have a team spirit? How does any team spirit impact your role in the budgeting process?"

<sup>19</sup> Question 16 reads "How open and transparent is the sharing of information in this organisation? How open and transparent is the sharing of budget information?"

context more accurately reflects the shared features of organisational life pertinent to budgeting. Common, or shared views, replaced shared narratives in the adapted framework, as they represent a shared business worldview held by those in an organisation. Such shared views may have potential financial implications, thereby influencing the budgeting process. The shared narratives element of Nahapiet and Ghoshal's (1998) framework was not retained in the adapted framework, because it was not considered to be directly relevant to budgeting. The cognitive dimension put forward by Nahapiet and Ghoshal (1998) and the shared context used in the adapted framework are displayed in Table 3.7.

*Table 3:7. Comparison of the shared context dimension*

<b>Nahapiet and Ghoshal's (1998) framework</b>	<b>Adapted framework used in this thesis</b>
<p><i>Cognitive Dimension</i></p> <ul style="list-style-type: none"> <li>• Shared language and vocabulary</li> <li>• Shared narratives</li> </ul>	<p><i>Shared Context</i></p> <ul style="list-style-type: none"> <li>• Shared language and vocabulary</li> <li>• Shared views</li> </ul>

The shared context dimension is discussed in the budgeting setting in more detail.

#### *Shared language and vocabulary*

Most organisations have shared terms or vocabulary such as shared technical terms and jargon that are specific to the organisation and/or industry. Such shared terms help bring employees together as they have a shared understanding of what these terms mean. Access to information can be restricted if an employee does not understand the vocabulary (Nahapiet & Ghoshal, 1998). Budgeting has its own peculiar jargon, and a common understanding of these budgeting terms is necessary for effective communication. Community separation, present in an organisation by

virtue of its being a separate social community, aids the development of organisation-specific language (Nahapiet & Ghoshal, 1998).

### *Common/shared views*

In this thesis, shared views (Huppi & Seemann, 2001; Pearson et al., 2008) are interpreted as a shared worldview, or a shared way of thinking and operating. Examples of shared views are a shared understanding of the business and marketplace, a shared strategic and competitive agenda, a shared way of making sense of information, and a joint understanding of the business (Huppi & Seemann, 2001).

A shared or common view is congruous with Nahapiet and Ghoshal's (1998) notion of the cognitive dimension,<sup>20</sup> as it can be seen as a shared interpretation, or system of meaning, in an organisation. These shared "interpretations, and systems of meaning" (Nahapiet & Ghoshal, 1998, p. 244) are described in various ways in the social capital literature. The terminology used by various authors to refer to what this thesis terms a 'shared view' is shown in Table 3.8.

Shared views can be extended to include organisation-specific attributes that are not behaviour-based. For example, it is important to some not-for-profit organisations that they operate in a way that is consistent with their religious, social, or political values (Jeavons, 1993). Shared views may play a role in decision-making, and, as a result, impact the budgeting process. They may also influence budgeting by affecting factors such as the goal of the organisation. Such influence may have budgetary implications. Shared views may act to reduce conflict in working relationships among those involved in budgeting, as those involved in the process are likely to share a common financial outlook. The interview questions developed to examine a shared context are discussed next.

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<sup>20</sup> Nahapiet and Ghoshal's (1998) cognitive dimension is similar to the shared context dimension of social capital adopted in this thesis.

Table 3:8. Terminology used to describe a shared view

<b>Definition</b>	<b>Authors</b>
Shared goals and shared culture	Inkpen and Tsang (2005).
Shared goals	Chow and Chan (2008).
Shared vision and purpose	Pearson, Carr, and Shaw (2008).
Shared meaning, vision, and purpose	Carr, Cole, Ring, and Blettner (2011).
Common perspective or understanding	Sanchez-Famoso, Maseda, and Iturralde (2013).
Common context, shared goals	Sanchez-Famoso, Maseda, and Iturralde (2014).
Common values, shared beliefs, vision, and purpose	Mani and Lakhal (2015).
Same vision, mission, and goals	Tantardini and Kroll (2015).
Common perspective or understanding – mutually beneficial common goals	Sanchez-Famoso, Akhter, Iturralde, Chirico, and Maseda (2015).

*Social capital interview questions*

As with the previous two dimensions, the interview questions were designed to start a conversation on the nature of the shared context in each organisation. The shared context section of the interview schedule contained two questions enquiring about the influence of a shared context on budgeting (see Appendix 10 for the social capital interview questions)

Question 17<sup>21</sup> prompted a discussion on shared views, particularly the effect competition for budget resources has on budgeting. This question was also included to produce a discussion on any empire-building tendencies and political games played during budgeting. Shared views are also addressed in question 18,<sup>22</sup> which sought to enquire about how the organisation balances the need to return a profit – or in the case of the not-for-profit to break even – with the need to look after staff. A vocabulary relating to budgeting was not addressed directly in the interview questions. However, it was envisaged that budget-related terms used in the three case study organisations would emerge during the interviews. Having finalised the 18 interview questions, I next sought formal ethical approval to conduct the interviews.

### **3.4 Data Analysis**

Once the interviews had been carried out, the next step was to analyse the interview data. This process began with transcribing the interviews. Interview transcripts were then coded, and themes relating to how social capital influences the budgeting process in each organisation were identified. Each of these three aspects of the data analysis process will now be discussed in turn.

#### **3.4.1 Data transcription.**

All interviews were digitally recorded and transcribed. The interview transcription process resulted in familiarity with, and immersion in, the data (Bazeley, 2007; Braun & Clarke, 2006), and resulted in a better understanding of the data (Braun & Clarke, 2006). As interviews were the

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<sup>21</sup> Question 17 reads “The budgeting process often results in departments within an organisation competing with each other for budget resources. How does any competition for budget resources impact workplace values, rules of conduct and any team spirit?”

<sup>22</sup> Question 18 reads “In your opinion, does this organisation maintain a good balance between making money and looking after staff?”

principal source of data, verbatim transcripts were made. The term verbatim was understood to mean that every word was transcribed, including fillers (Bazeley, 2007). It also included noting other verbal and nonverbal interactions, such as laughter and pauses (Bazeley, 2007; Braun & Clarke, 2006). These interactions provided an indication of the mood of the interviewee at the time of the interview. Once the interview data had been transcribed, the next step was to develop codes and to code each transcript.

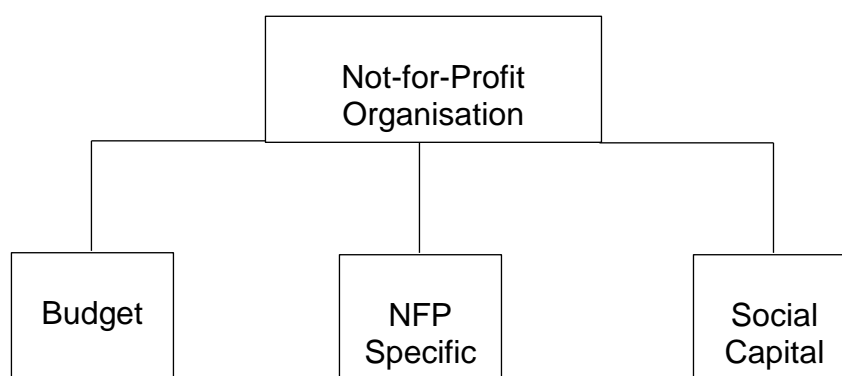
### **3.4.2 The coding process.**

I used the coding method suggested by Saldana (2013) to develop codes and themes. Saldana (2013) identifies two cycles to the coding process. The first cycle of coding occurs as the data are initially coded. The second cycle involves reanalysing and reorganising the first cycle codes to “develop a sense of categorical, thematic, conceptual, and/or theoretical organization” (Saldana, 2013, p. 207) from the codes created in the first cycle.

For the first cycle, coding was carried out on hard copy printouts (Saldana, 2013), and the coded material entered into nodes in *NVivo*. Although this approach to coding was time-consuming and mechanistic compared to coding directly on the computer screen (Bazeley, 2007), it aided the immersion process. Coding was carried out on batches of transcripts from one organisation. This approach enabled me to focus on and become immersed in one organisation at a time. It also helped ensure consistency between transcripts.

Names for codes came from three sources: the social capital literature; questions on the interview schedule; and, codes originating from the data. Coffey and Atkinson (1996) note it is acceptable to use more than one source to generate code names. Codes can originate from theory or a conceptual framework (Coffey & Atkinson, 1996). In this thesis, some of the codes related to social capital theory. Other codes were derived from interview questions, for example, responses to the top-down versus bottom-up nature of the budgeting process (question 4). Guest,

MacQueen, and Namey (2012) term these codes 'structural codes.' Codes originating from the data fell into two categories. Some were *in vivo* codes (Bazeley, 2007, 2013), as they were derived from words or short phrases used by interviewees. Other codes were content codes (Guest et al., 2012), as they arose from organisation-specific activities, for example, management meetings. Nodes were organised so that codes relating to each organisation were grouped together, resulting in three distinct 'groups' within the one *NVivo* file. Within each organisation, nodes were further grouped into those relating to budgeting, nodes relating specifically to the organisation, and nodes relating to social capital. The resulting tree structure is displayed in Figure 3.4, and relates to the not-for-profit organisation.



*Figure 3:4.* Tree structure of nodes

Once codes had been identified and entered into *NVivo*, the next step was to analyse the codes for each organisation, in order to first identify themes and then to compare the themes across all three organisations.

### **3.4.3 Identifying themes.**

The second cycle of coding (Saldana, 2013) involved analysing the coded material from each organisation for themes. The process of identifying themes began during the data transcription and coding stages of the study as I immersed myself in the data (Bazeley, 2013). It continued after the interview transcripts from each organisation had been coded and entered into *NVivo* (Bazeley, 2013). The 'describe, compare, relate' strategy developed by Bazeley (2013) was used when developing themes. The

three steps in Bazeley's (2013) strategy are described in more detail below. The three steps were not applied sequentially. Rather, relevant aspects of the three steps were considered concurrently when developing each theme.

The *describe* step involved reading through coded text relevant to the theme, and making notes. The characteristics and boundaries of the theme were recorded. Exemplar quotes for each theme (Bazeley, 2013) were copied into a file to help in the description process. The extent to which the theme figured in the data was taken into consideration, and the distinctiveness of each theme was examined. This stage of the thematic analysis involved considering whether the theme was different or similar to other themes, or if other themes could be incorporated into it (Bazeley, 2013). The *compare* step involved looking for similarities and differences between the theme under consideration and other themes, noting what was unique and what was common (Bazeley, 2013). This step also entailed comparing the theme across differing groups or conditions, noting if the theme were expressed differently by different groups (Bazeley, 2013). The *relate* step involved exploring patterns of association between themes, and relating the theme to other themes that had been identified (Bazeley, 2013). Here, the process included asking questions about the theme such as the condition under which the theme arose (Bazeley, 2009).

The describe, compare, relate process of theme development and how the process was applied can be illustrated using the development of the teamwork theme in the public company case study which appears in chapter six. The teamwork theme is a subtheme within the theme of how the organisation's values influenced budgeting. The *describe* step involved reading through the nodes relevant to teamwork, and making notes. I read through the team spirit node, the team spirit and the budgeting process node, and read through 15 other related nodes taking notes on how each node related to how teamwork influenced the budgeting process. I copied exemplar quotes from the relevant nodes, and pasted them into a word document, with the intention of using them for quotes in the case study write-up. The fact that all eight interviewees

referred to how teamwork influenced budgeting gave me confidence that teamwork was a valid subtheme. I then *compared* the teamwork theme with the influence of values on the budgeting process theme, and concluded there were similarities, as teamwork forms part of one of the four formal values adopted by the public company. Upon comparing the teamwork theme across interviewees, I noticed interviewees brought out different aspects of the theme. I, therefore, *related* the teamwork theme to other themes, searching for common ground. There was some overlap with the theme of a common goal and the theme of how the budgeting process influenced social capital. I enquired into why the common ground existed. I concluded that at the public company, managers worked as a team to achieve the common goal, and that the introduction of a site component to the bonus incentive scheme for managers improved teamwork.

Once themes for each organisation had been identified, the themes were incorporated into a case study (Bazeley, 2013; Eisenhardt, 1989b). Chapters four, five, and six contain the findings (or themes) from the three case study organisations. Chapter four deals with for the not-for-profit church; chapter five considers the private company, and, chapter six examines the public company. Themes identified in each case study organisation were then compared across all three organisations; here, I looked specifically for similarities and differences (Bazeley, 2013; Eisenhardt, 1989b; Guest et al., 2012). The comparison of themes across all three chapters is presented in chapter seven, the discussion chapter. Qualitatively comparing themes arising from the three case study organisations is consistent with the interpretivist philosophical approach adopted in this thesis (Guest et al., 2012). The aim was to interpret social phenomena, rather than count themes (Guest et al., 2012).

### **3.5 Summary**

This chapter outlined the choice of methodology, method, data collection, and theoretical framework, and provided details regarding interviews and data analysis. An interpretive philosophical approach was adopted for this

study, as that approach is congruent with the subjective nature of social capital. The selection of the case study method, using multiple sites, allowed for a rich, thick description (Geertz, 1973) of the influence of social capital in and on the budgeting process in the three organisations. Data were collected using interviews, allowing interviewees to share their subjective view of the influence of social capital on the budgeting process.

Nahapiet and Ghoshal's (1998) framework on social capital provided a skeleton for the theoretical basis of this thesis. Their framework was further adapted to study the influence of social capital on the budgeting process in the three case study organisations. This adapted framework drew from both Nahapiet and Ghoshal (1998) and social capital theory and was used to develop the interview questions. The adapted framework used in this thesis is shown in Table 3.9 (see p. 86).

Saldana's (2013) approach to developing codes and themes was used to analyse the data. The first cycle involved coding the interview transcripts and entering the coded material into *NVivo*. The second step focused on analysing the coded material to identify themes. Bazeley's (2013) describe, compare, and relate strategy was employed when developing themes for each case study organisation. The resultant themes were then compared across all three organisations. The next chapter presents the findings from the first case study organisation, Fountain Springs, a not-for-profit church.

Table 3:9. The adapted framework used in this thesis

<b>Structural Dimension</b>	<b>Relational Dimension</b>	<b>Shared Context Dimension</b>
Network ties <ul style="list-style-type: none"> <li>• Formal network ties</li> <li>• Informal network ties</li> </ul>	Trust	Shared language and vocabulary
Network configuration <ul style="list-style-type: none"> <li>• Closure</li> <li>• Bridging/bonding</li> </ul>	Norms	Shared views
An apropiable organisation	Identification	
Physical spaces for people to connect		

## 4. Fountain Springs

### 4.1 Introduction

This chapter presents the findings from the first of three case studies. This case study focuses on the budgeting practices in a church, Fountain Springs<sup>23</sup> (FS), situated in a city in New Zealand. Some research has been carried out in the field of budgeting in churches. The literature has, however, been dominated, in terms of a theoretical context for budgeting, by what is referred to as the ‘sacred/secular divide’ (Kluvers, 2001; Parker, 2002; Irvine, 2005; Jacobs 2005). This divide was first proposed by Laughlin (1988, 1990), and was extended and refined by Booth (1993). However, Hardy and Ballis (2005) have criticised the sacred/secular divide approach taken by both Laughlin and Booth, contending that the divide “consists of general arguments that oversimplify religious organizations, on the one hand, and on the other, stereotypes the role of professionals in these organizations” (Hardy & Ballis, 2005, p. 251).

In this chapter, budgeting in a church is investigated from a social capital perspective. Such an approach to budgeting in a religious organisation, therefore, takes an entirely different perspective to that of previous studies. Rather than emphasising a divide, this chapter demonstrates that budgeting is integral to the achievement of a commonly understood goal, necessitating both sacred values and practical financial planning. In this type of organisation, money is a means to an end. Setting objectives, allocating resources, and getting feedback on spending contribute to the achievement of spiritual aspirations. In the process, budgeting fosters cooperative behaviour and the creation of social capital.

This chapter is organised as follows. FS is introduced in section 4.2, and background information on the budgeting process is outlined in section 4.3. The empirical findings are presented in sections 4.4 to 4.7. The chapter concludes with a summary in section 4.8.

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<sup>23</sup> Fountain Springs is a pseudonym used to protect the identity of the organisation.

## 4.2 Background to the Organisation

FS is an independent Pentecostal church that was founded in the 1970s. Each week, around 1,000 people attend a Sunday morning service, with around 400 attending a Sunday evening service. Through a related trust, the church provides a free, weekly Wednesday night meal for around 200 people.

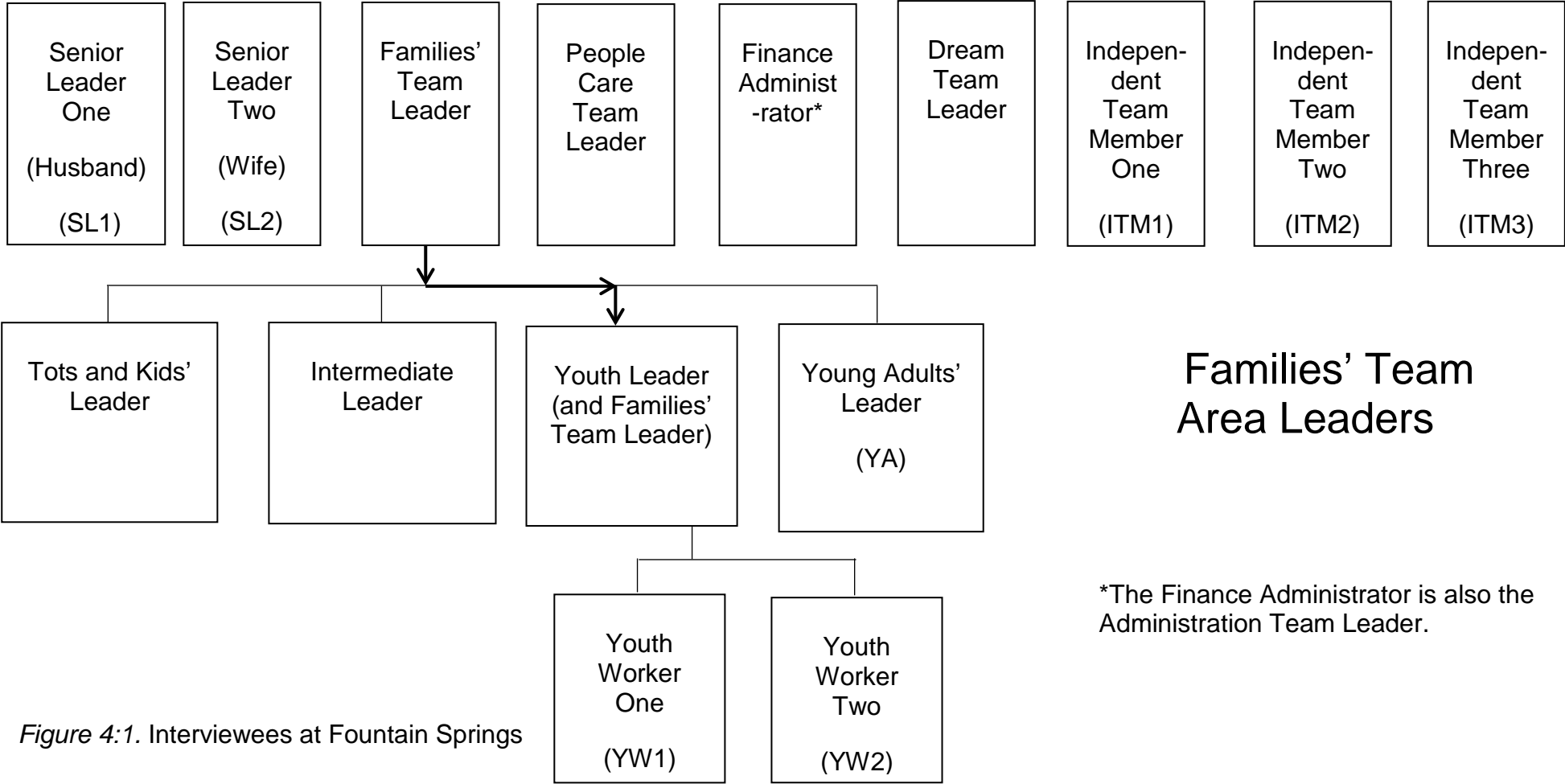
In 2011, FS changed its governance structure. Prior to the change, FS had been run by a leadership team which was made up of all staff. However, once the number of staff members grew to around 18, it became unwieldy to have all 18 team members making decisions. The change in governance involved the creation of four teams, with each team being made up of staff involved in a similar line of work. The change in structure was introduced slowly and carefully over a long period of time so as not to offend those who had been part of the previous leadership team. The four teams are known as: “the Families’ team”<sup>24</sup>, “the People Care team”, “the Administration team”, and “the Dream team” (see Figure 4.1). Each team has a team leader who is also on the leadership team. The Families’ team looks after pre-schoolers, children, and young adults up to the age of 25. The People Care team provides pastoral care. Those involved in the administration of the church are on the Administration team. The function of the Dream team is to provide creative input into the church.

FS is run by a leadership team of nine which meets weekly (see Figure 4.1). Six of the leadership team members are church staff, and three are independent team members who are members of the congregation and have specialist skills. Independent team member one (ITM1) is a counsellor who has had previous church leadership experience. Independent team member two (ITM2) is a retired accountant who has also had previous church leadership experience, while independent team

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<sup>24</sup> Pseudonyms have been used for team names to protect the identity of the organisation.

# LEADERSHIP TEAM



## Families' Team Area Leaders

\*The Finance Administrator is also the Administration Team Leader.

Figure 4:1. Interviewees at Fountain Springs

member three (ITM3) is a chartered accountant who works in a large accounting firm. The three independent team members were brought onto the leadership team at the beginning of 2012, and they serve on a voluntary basis.

Each of the four teams has a regular team meeting where team leaders report back to their team on relevant items raised during the weekly leadership team meeting. Items raised during the individual team meetings can also be taken on to the leadership team meeting. In addition, all staff attends a weekly staff meeting. ITM1 and ITM2 also attend the staff meetings. At the time of the interviews in 2012/2013, there was 21 staff in all at FS.

### **4.3 Background to the Budgeting Process**

FS is set up as a trust and is registered as a charity with the New Zealand Charities Commission<sup>25</sup>. The financial year at FS runs from 1 April to 31 March. In 2002, FS changed its balance date from the end of July to the end of March. The annual accounts are prepared by an external, independent accounting firm and are professionally audited. In the financial year ending 31 March 2013, FS had income of around \$1.26 million. In the same period, FS made a small deficit. FS relies heavily on donations from congregation members, with over 98% of its 2013 financial year income arising from tithes and offerings. Due to its reliance on donations, FS has limited options to increase revenue. Area leaders for the Families' team, the People Care team, the Administration team and the Dream team are allocated an annual grant to spend on activities taking place in their area.

The budgeting process commences in mid-February when the finance administrator informs area leaders that their area budget is due in mid-March. Area leaders differ as to how they prepare the budget for their area. Different teams prepare their budgets in different ways. For example,

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<sup>25</sup> [www.charities.govt.nz](http://www.charities.govt.nz)

the area leaders in the Families' team prepare their budget in consultation with volunteer leaders in their area. Once area leaders have completed their budget, the finance administrator collates the area budgets and prepares a draft budget for FS. The finance administrator then adds to the budget forecast income and other items of expenditure that are not area-related. At this point in the process, the finance administrator discusses any issues arising from an area leader's budget with the leader concerned and makes adjustments to that area leader's budget as required. The draft budget is reviewed by ITM3, who is a chartered accountant. The finance administrator then outlines the main points of the budget to senior leader one (SL1).

The next step in the process occurs at a leadership team meeting. The finance administrator explains the main points of the budget to the leadership team. The leadership team discusses the budget, and makes decisions regarding items of capital expenditure. They decide on the priority to be given to capital expenditure items, and which capital expenditure items will be purchased. The leadership team also decide how funding for missionaries will be distributed, specifically which people or organisations will be funded, and how much each will receive. FS has a policy of setting aside a tithe (10%) of the previous year's income to support missionaries. Staff salaries are discussed and any increases approved. After discussion, the budget is approved by the leadership team. It is then formally signed off by SL1. The finance administrator then reports back to area leaders on the finalised funding for their areas.

The finance administrator provides area leaders with individualised 2-monthly monitoring reports that outline how their actual spending compares against their budget. The finance administrator informs area leaders if he has any concerns regarding their actual spending for the 2-month period. The finance administrator also provides the leadership team with monthly reports on FS' financial situation.

From 1994 to 2004, FS experienced a period of upheaval due to changes in leadership. This upheaval had been precipitated by the moral failure of

a previous leader in the 1980s becoming apparent. As a result, donations fell and a cash surplus for the year ending 31 July 1994 had turned into a cash deficit by July 1995. In an effort to reduce expenditure, the staffs of 11 were reduced to 5. The salaries of the 5 remaining staff were reduced, and administration expenditure was limited to essential items only. After the low point in the July 1995 year, FS' financial position slowly started to improve. Around 2001, donations started to increase due to a renewed acceptance of the values-based leadership, the repercussions of the moral failure by a previous leader being addressed, and a renewed trust in the leadership team.

#### **4.4 Budgeting Reinforces Organisational Norms and Values**

FS is best described as a values-driven church where the focus is on operating and making decisions in a way that is consistent with its core values. The four core values are stated on FS' website as: "We value people"; "We value integrity"; "We value authenticity"; and, "We value vulnerability".

- *We value people* is described on FS' website in the following way. "God's supreme passion is people. This being so, any endeavour that bears His name must value and love people. We are careful at [FS] to ensure that people never become 'the means to the end.'"
- *Authenticity* is about being honest and real, with no sense of pretence.
- *Integrity* is described on the website as seeking to "function and communicate with truth and simplicity."
- *Vulnerability* relates to being honest and telling the whole story, both the good parts and the bad.

These four core values provide "a degree of consensus in the social system" (Nahapiet & Ghoshal, 1998, p. 255), and have become norms at FS. Another norm occurring at FS that impacted the budgeting process was generosity. In this chapter, the terms value(s) and norm(s) have been used interchangeably.

The values are connected to the spiritual journey of the senior leaders. At one stage, they were working in a church<sup>26</sup> under a manager who was “abusive”, “manipulative”, and “in places, dishonest” (SL1). As a result, “It brought me to within an inch of leaving the church and just saying forget it. I don’t ever want to be involved in the church again” (SL1). However, “I couldn’t get away from what Jesus talked about. When He talked about the church, He loved it, and I couldn’t work out how I could follow Him and not love His church” (SL1). They left to pastor a small church<sup>27</sup>, and determined they would treat people in a way that “reflected the character of Jesus”, that is, with “dignity and honour” (SL1). Soon after the senior leaders arrived at FS in 1994, a staff meeting was held in which the values were formalised.

The close connection between the experiences of the senior leaders and FS’ values is an example of an appropriable organisation. An appropriable organisation occurs when social capital developed in one social setting is transferred to another social setting (Nahapiet & Ghoshal, 1998). In this case, the senior leaders’ personal values, developed out of their previous experience, have been incorporated into the values of FS.

Staff described how the values were pivotal to the way FS operates. Senior leader two (SL2) used the analogy of a pair of glasses to explain how she viewed the values. “It’s like having glasses on and we view everything through that.” In a similar vein, the People Care team leader believed the values “Undergird everything of who we are and how we operate.” Similarly, SL1 related that everything done at FS was underpinned by the values, and fed through the matrix or grid of the values. In the opinion of the Dream team leader, the values “Are woven through everything ... I think the way we do stuff, the way we talk in our leadership team, the way we want our staff to be treating their volunteers, these [values] are central to it.” There is an expectation that staff will adhere to

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<sup>26</sup> This church was not FS.

<sup>27</sup> This church was not FS.

the values in the way they work. “It’s kind of, for the lack of a better term, drilled into us that every decision we make must be made through the [FS] code of values” (young adults’ leader).

Interviewees spoke about how the values have been internalised and incorporated into their area of responsibility. According to the young adults’ (YA) leader, “We all have chosen to live our lives by those values, and to lead through those values, so we treat each other through those values as well.” Youth worker two (YW2) echoed a similar sentiment. “Most of the staff members would probably say that these are their personal values, not just their work values.” The Families’ team leader believed that staff at FS “Genuinely try with all their heart to live within their stated values. So, that makes it ... not just something written on a piece of paper.” Likewise, the intermediate leader considered the values were more than mere words. “I’d say they’re things people live by. They’re things that I take into account in my own area that I run.” SL1 pointed out that the values are “Not just a plaque we put on the wall.” For him, the values are “What calls us forth, and it is what drives our organisation.” The YA leader commented:

[The values] are expected to be there when we come on staff here. It’s not just words that we say and things that we believe in theory, but actually [FS] is the way that it is because of those, and that’s who we are and if you can’t live by those and lead by those, then you’re probably not in the right place.

By adopting the values as their own personal values, interviewees have internalised (Coleman, 1990) the values, and have identified with the values. Identification occurs as interviewees “see themselves as one with another person or group of people” (Nahapiet & Ghoshal, 1998, p. 256). In this situation, interviewees were identifying with FS’ values. Interviewees were also displaying what Leana and Van Buren (1999) term associability, as they have laid down their personal values and adopted the values of the collective, in this case, FS.

FS has a human resources policy of hiring staff who fit with the organisation's values. The Dream team leader, who also has a human resources role, stated:

We don't necessarily advertise to a wider community. It's more about we see people that have the values and then maybe they're asked to go on staff because they have the values ... Because it's part of what they've bought into.

Each staff member's employment contract and job description contains a section that states the employee will, in the words of the Dream team leader, "Buy into the values of [FS]." The finance administrator remarked that the focus when hiring new staff was on their "fit" with FS' values, rather than their level of skill. Many of the staff had worked voluntarily for FS, or were interns at FS, before becoming paid staff members. The finance administrator acknowledged that by doing so, FS is effectively "Furthering the culture by employing people who agree with the culture."

The senior leaders believe the values were best communicated by their actions. According to SL1:

I also think you model [the values] by what you do. I get to talk to a lot of pastors and one of the things I'll always say is in creating a culture, your life is the most important tool in the creation of the culture. If you don't live it, forget it. It's a waste of time. If your values are just something you've written on a wall and you aren't trying to live out in your life, that's not going to work, so you've got to model it.

His wife, SL2, also believed the values were communicated by her and her husband's actions:

In pretty much everything we do really. The way we treat people. The way we honour people. The language we use ... We would honour their health and their family life. We don't expect things of them that we think "That's going to be detrimental to their family life" ... We try and model [the values] by the way we work in terms of taking proper time off.

This quote reflects the view of Cohen and Prusak (2001) who note that leaders, through their actions, establish and maintain the organisation's values and norms. A similar notion is referred to by Jeavons (1993). In the context of a religious organisation, Jeavons (1993) points out that such

organisations should give attention to “the manner in which they operate” as it “makes a statement about the values their organizations represent” (Jeavons, 1993, p. 63).

Interviewees were also of the opinion the senior leaders modelled the values. The Dream team leader believed the senior leaders were “soaked in the values.” Youth worker two (YW2) considered SL1 was “a great example of [the values]”. According to the People Care team leader:

You see, for me, [the senior leaders] are the absolute epitome of how those values are modelled. I feel incredibly valued by them, personally. I believe every staff member does actually. I know that when I see them, what you see is what you get. They are authentic. They're transparent. They're quite private people as you know, but they are completely authentic and transparent. They are very vulnerable. I think [SL1], as best he can without being out there too much, and in an appropriate way, is vulnerable at the sermon pulpit level. He's certainly vulnerable at a leadership level.

The intermediate leader commented on a practical way in which she felt the senior leaders modelled the values. She said they would check up on her if she was busy, or tired, or sick, to “see that you're doing okay.” The values were reinforced during the weekly staff meetings. The Dream team leader, who runs the staff meetings, reported that a half hour slot was put aside at each staff meeting in which a staff member would talk about a leadership development tool, or a management tool. Typically, the values would be referred to during this time. According to Chenhall et al. (2012), this practice was also seen in an Australian nongovernment organisation, where there were “periods of reflection on social welfare values during fortnightly senior management team meetings” (p. 5).

According to the People Care leader, the core values underpinned the budgeting process:

So although we're not literally going through each value with every question that we ask about budget, it is at the forefront ... We think about integrity when we're thinking about budget[s]. We're thinking about transparency and vulnerability and all of that stuff when we're looking at budgets, in everything we do.

The YA leader agreed, stating that “You’re expected to look at the way that you spend money through those values.” In the context of a local church, Barry (2015) notes that “how you allocate financial resources and set budgets clearly reveals your assumptions and beliefs” (p. 82). The next three sections consider how the values and norms are reinforced during the budgeting process.

#### 4.4.1 Valuing people.

For four of the interviewees, valuing people involved spending money on looking after those on their team, or on volunteer leaders and other volunteers in their area. How this aim was achieved in the four areas is displayed in Table 4.1.

*Table 4:1.* Funds budgeted to value people

Interviewee	Quote
Tots and kids’ leader	<p>“A part of what we would budget for is valuing of our leaders, valuing of our volunteers and making sure that they are shown not just by our words, but by our actions that we truly value them and appreciate them.”</p> <p>“So we’ll take them out for morning tea, or we’ll put on a special lunch and you don’t have to say is that okay? That’s expected of us, that we will look after our volunteers, we’ll look after our people.”</p>
Intermediate leader	<p>“So when I am budgeting for the people that volunteer on my team, so things like leadership care or leadership meetings, I want to make sure that that is something that’s</p>

	considered in my budget. So like if we are having a meeting, like we will have like a leadership breakfast, so I'll make them breakfast, and the money that I spend on food for that comes out of that budget."
People Care team leader	"So into my budget, I will build in things like coffees and breakfasts, or lunches or morning teas. And again, we don't go outrageously expensive, but, because again doing food is one of the things that I enjoy doing. I will do some kind of celebration of food for our team. But I've already built it into the budget."
Youth worker two (YW2)	"In the [Youth] budget, we've got allocated money for hospitality, as in taking out our leaders, making sure they're doing okay throughout the year. Meeting with leaders for coffee and then we've also got, because as well as the volunteers' dinner, we have a thank you for just our [Youth] leaders, where we all go out for dinner."

As is indicated by the previous quotes, FS relies heavily on volunteers to meet the needs of the congregation. To show their gratitude to the volunteers, FS staff host an annual dinner for volunteers. At this dinner, the staff prepare and serve the meal. According to YW2, "There's 400 people invited and out of [FS'] budget, we've had to budget in we're going to feed you all." She also believed celebrations were part of valuing people:

We've spent a reasonable amount on Christmas that's been in the [Dream team] budget and put aside for that, simply because we want to value people and saying "Let's celebrate Christmas together", which people could see that as "You're wasting money

on getting a tree and decorating it” and ra de ra, but it comes from a place of we want to value you.<sup>28</sup>

At FS, 11 staff were employed to look after people, by providing pastoral care and teaching in their areas. FS employed six people in the Families’ team to provide teaching and pastoral care to young people. Four pastoral staff were employed in the People Care team to provide pastoral support to adults. The People Care team leader is a qualified counsellor, and provides free counselling to congregation members. A member of the Dream team provides pastoral care to the worship team who provide music for the worship on Sunday. One of the roles of SL1 is to provide teaching to the congregation as part of the Sunday services. In these examples, the allocation of money to pastoral care and teaching reinforces the value of looking after people.

As has been shown, the act of interviewees valuing volunteers has resulted in funds being allocated in their budgets for looking after volunteers in practical ways. In this respect, FS’ norms and values influence the budgeting process. Initially, the *we value people* norm influenced the budgeting process. As the money set aside in the budget for valuing volunteers was spent, the norm was reinforced.

Although FS claims it values its staff, it is unable to pay them market rates of pay. SL1 remarked “People do ministry because there’s other motivations.” Some staff referred to their job at FS as a “calling.” Staff often joked about the low rates of pay. The YA leader stated: “You do it for the love, not for the money sort of thing.” SL1 commented: “None of us are here because we want to earn a million bucks. It’s the wrong business. If you want a bach by the beach, and a boat, don’t go into ministry.” The People Care team leader believed:

I guess there’s that common purpose, in we all love what we do, and if you don’t love what you do, I guess you don’t survive for too, too long. Because the pay’s not brilliant. I believe you’ve got to be called to it.

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<sup>28</sup> Youth Worker Two (YW2) also worked on the Dream team on a part-time basis.

Although FS is unable to pay market rates of pay, it tries to compensate staff in other ways. SL2 commented:

We try and make up for it in other ways though, [such as] flexible work hours. We are generous with sick leave or time off for various needs and we try and make [FS] a really fun environment to work in.

Evidence from the interviews indicated that the *we value people* norm extended to supportive working relationships among staff. Those in the Families' team spoke of supportive working relationships. The tots and kids' leader described her working relationships as "close" and "supportive". The intermediate leader spoke of "easy-going" working relationships, while YW1 believed the work environment was "family-like."

In the context of budgeting, the supportive working relationships were seen in what YW1 referred to as a "pastoral care element" to the budgeting process:

I remember last year thinking of the three different areas that I was working, and then having to submit budgets. So I worked for [a Christian camp] for part of my job. And then I was working here, and I worked at [another Christian organisation], and so, for instance at [the Christian camp], you would submit your budget and you almost felt like you were fighting for your budget there and to the point where we were like "I don't want to fight about it. I just want you to say yes or no and if you say no to it, then that's fine." But here [at FS], even if they did say "No" to it, it was never like "Justify that". It's almost like really pastoral care in its own. I feel like [FS'] in its own bubble in that because out in the secular ... I just feel like "Man we are so blessed here", because out there they'd be like "Oh too bad, we need to meet this and it doesn't matter what we cut here, that's just it, we've cut it." If they were to cut anything here, it is like "Here are the reasons why and we're really sorry about that."

Table 4.2 outlines how some of the leadership team viewed their working relationships with other members of the team.

Table 4.2. Working relationships among leadership team members

<b>Interviewee</b>	<b>Comment</b>
Independent team member one (ITM1)	“Open”, “Very friendly”
Independent team member two (ITM2)	“Respect one another”, “Open”
Independent team member three (ITM3)	“Very healthy”
Senior leader one (SL1)	“Genuine warmth and care for one another”
Senior leader two (SL2)	“Respect each other”, “A good friendship basis”
People Care team leader	“Honest”, “Open”, “Treated as equals”
Dream team leader	“Quite close”

As can be seen from Table 4.2, respect for other members of the team was mentioned twice. Respect is a norm identified in the social capital literature (Peters & Waterman, 1982). In the opinion of ITM1, leadership team members were “very accommodating to hear everybody’s voice on anything that anyone wants to say.” ITM2 related how openness among team members affected his wife, ITM1:

There’s a real openness [in financial issues], and I’m an accountant, so I tend to understand perhaps a lot more than [ITM1], because she doesn’t like figures and such. But if there’s something she doesn’t understand, she’s totally free to ask in that meeting. And without being made to feel stupid.

The People Care team leader believed the working relationships between leadership team members were “sometimes blatantly honest and hold on, is that a bit too honest for in a church where you’re supposed to be kind to each other?” SL1 considered there were genuine, caring working relationships. “I think there’s genuine friendship there. It’s not just it’s your role and my role and we’ll interact in as much as our roles require us to.” Likewise, his wife, SL2 commented:

We would personally interact and have things to do with each other outside of the working environment. It’s far more than just a formal relationship. It’s a very informal relationship, and we really respect each other and have fun together and sometimes spend time together ... outside of work.

It was evident from the interviews that there was a similar working relationship occurring when budgeting or the church’s finances were discussed.

I don’t think it’s any different. We’d just approach it in the same way. Obviously we would be looking for input more from the people that are responsible for that area and often taking advice from them and saying, “Well, you know, if you think that’s okay, we trust you and you know what money we’ve got.” I don’t think we would approach it any differently than any other topic really. There’s no point of contention or anything different. (SL2)

SL1 agreed, saying: “Certainly not any sort of change of suddenly people get real tetchy and purse string pulling. Nothing like that. It’s never been like that.”

It is apparent that the budgeting process reinforced the norm of valuing people through supportive working relationships. In this context, a circular relationship exists (Leana & Van Buren, 1999; Putnam, 1993). As staff treat each other in a supportive way, the norm is reinforced and strengthened, forming a foundation for future interaction.

Valuing people and supportive working relationships helped to lay a foundation and set the tone for the leadership team to function as a team. Teamwork is a norm identified in the social capital literature (Nahapiet & Ghoshal, 1998; Pearson et al., 2008; Subramaniam et al., 2013). A related

term, cooperation, is also a norm mentioned in the social capital literature (Edwards, 2004; Nahapiet & Ghoshal, 1998). For four of the leadership team, the team spirit at FS was viewed as making budgeting decisions that were in the best interest of the organisation. According to the People Care team leader, “We’re working for the bigger need, family, not just for what I want.” SL2 commented that decisions were often made on the basis of “What’s best for [FS]?” She also pointed out that people were brought onto the leadership team who worked well in a team environment. Similarly, the Dream team leader indicated that “we are in this together. That we are working for the same goals. That we are trying to do this because we love [FS], we love God.” In a similar vein, in the opinion of the finance administrator, “Everyone works for each other, rather than against each other, which is obviously what you often find in a secular environment ... That people compete for finance and budget, whereas I don’t think we have that at all.”

In the opinion of ITM2, the team spirit manifested itself in a supportive attitude among leadership team members. He clarified his belief by saying: “That if we can make this work, let’s do it ... So there’s a can do attitude rather than a negative, no you can’t do it, sort of attitude.” SL1 remarked that the team spirit occurred in the budgeting process “In the things that they don’t do,” such as empire building or leaders promoting own area to the detriment of other areas.

#### **4.4.2 Integrity.**

In the opinion of the Dream team leader, the norm of integrity is vital to the budgeting process:

I think integrity is probably the one that affects the budgeting process the most, because we really do expect people to be honest with the way they deal with finance. There’s a lot of trust I think. Because people do have a lot of freedom to spend, but there’s trust that people will be doing that the right way.

SL1 believed the norm of integrity was linked to FS’ finances, and by implication, budgeting:

I mean some of them go without saying. Number one, integrity. It's got to be we're not cooking the books, we're not fiddling the books, it's got to be genuine. We've got to be able to do this and make sure it's all above board and it's the right thing.

According to the families' team leader, the norm of integrity influenced the extent of SL1's involvement in the church finances:

From what I've seen, [SL1] doesn't want to know about big givers in [FS]. He wants to keep himself really safe, so he's not the final authority on money, and I think that's because he's trying to be an integral leader. He places a team around him, and doesn't want to know [day-to-day facts such as] the safe number, the bank account details, anything like that ... Because he wants to live in here, in the values.

Honesty is related to integrity, involves owning up to mistakes, and is a norm identified as occurring in organisations in the social capital literature (Subramaniam et al., 2013). The tots and kids' leader related how she made a \$1,500 error in her budget one year:

One year, I made a gross mistake in terms of my figures for camp. I misread what the camp costs were, so my camp costs were way out. I'm talking \$1,500. So, in grace, I went and I said: "I've made this mistake, and so my budget's going to be out by that", and grace that was given to me. "I can see where you made that mistake, these things happen, da, da, da." So grace was given.

Honesty in budget preparation is clearly the expectation of the finance administrator. "I expect they're going to give me accurate figures. I don't expect that they're going to go: 'Oh, I'd just like to add another \$2,000 in.'" There is also an expectation that area leaders will not add in new expenses without permission. According to the tots and kids' leader:

If there's something that isn't in your budget, but you think it would be a really cool thing to do, make sure that you ask permission. You just don't go ahead and do it, you suss it out.

In the opinion of SL1, transparency was related to the norm of integrity. "[Transparency is] almost, a spin-off of integrity. If you're doing it honestly, there's nothing to hide." Staff were free to ask for information on FS' finances. However, some information, for example, staff salaries, was

kept confidential. There was an informal rule that the finance administrator's door was always open to staff, so they could approach him at any time to request an update on their budget, or to ask questions regarding financial matters. Area leaders shared financial information with their volunteers on a need-to-know basis. However, many of the staff were not "money-minded." The finance administrator stated that the finances of the church were open, but that many of the staff were not interested:

I think it's very open, but my qualifier to that is most people don't want to know. They're actually not that interested ... So those who need to know come and ask. Those who want to know come and ask. Those who aren't interested, which is the majority, don't come and ask.

The view that many of the staff were not interested in budgeting was reiterated by YW1:

I think that if anyone came and asked about the budget, I'm sure that [the finance administrator] would be happy to tell them. It's like in my head I'm like, "Who'd want to ask about that? It just seems so boring!"

While there was little financial information communicated to the staff at staff meetings, at leadership team level, financial information was disseminated in a transparent and open manner. Transparency (Nahapiet & Ghoshal, 1998; Huppi & Seemann, 2001), and open disclosure of information (Nahapiet & Ghoshal, 1998) are norms identified in organisations in the social capital literature. According to the Families' team leader, "Everything's open ... everything from missions to what we're spending, to debt." Leadership team members were free to ask the finance administrator for more financial information to be supplied if required.

The value of integrity is also related to trust. Trustworthiness is a norm identified in the social capital literature (Edwards, 2004; Putnam, 2000). Staff were trusted to prepare budgets that were reasonable, and be honest in the way they managed the finances of their area. The YA leader spoke about the trust and autonomy given to her when preparing her budget. "I have never felt like there's been a look over my shoulder to see 'How am I

doing? How's it going? Why are you allocating that there? Why are you allocating that there?" The finance administrator expected those with budgeting responsibilities not to spend money at the end of the year, simply because there was money left in their budget. "We trust you not to spend money on things that don't need money spent on, and if you've got money left over, that's fabulous, but we hope that the budget you've given us is accurate." Trust in financial matters also extended to the use of an organisational credit card. The tots and kids' leader related her approach to the use of the credit card:

So, I've got to be trustworthy in terms of what I use that credit card for. I make sure I've got the records of what I spend it on and that's sent in and gets coded properly, and so that it is what it is.

According to the Dream team leader, "There's a few people that push the boundaries of the budget sometimes, but [the finance administrator's] on top of that I think, so there's again a lot of trust that [the finance administrator] monitors that." An example of an area leader 'pushing the boundaries' is the People Care team leader, who allocated money for staff development, uncertain about whether or not the funds would be needed during the year:

[The finance administrator] shaved a heck of lot off my pastoral budget this year. I just thought it was hilarious. I knew I'd put way more in, because for me, staff development is crucial. And I just saw some of my team that I thought I really want to see you have an opportunity to do this, if it comes along. But I wasn't sure that it was going to come along. So I thought, well, I'll budget for it just in case.

According to ITM3, the leadership team had a "pretty good handle on all the costs." Due to the transparent nature of the budgeting process, any extra spending "would get pulled into line pretty quick." It appeared this was the case with the People Care team leader's desire to have funds available for staff development.

It is evident that the budgeting process reinforced the norm of integrity. As staff act with integrity in their budgeting tasks, the norm is reinforced.

#### **4.4.3 Authenticity.**

The Families' team leader viewed authenticity in the budgeting process at leadership team level in the following way:

I believe authenticity is massive in the sense of I've never seen anything that smells of underhand, just paying friends or speakers that are friends more than someone else, or hiding any financial sort of decision at a leadership team level from the congregation.

The evidence shows that the budgeting process reinforced the norm of authenticity. This occurred as staff act in an authentic manner when carrying out their budgeting tasks.

#### **4.4.4 Generosity.**

A further norm influencing the budgeting process at FS is the norm of generosity. SL1 stated: "I want us to be generous, because that's what God's like. And we must be like Him." The People Care team leader shared how, whenever possible, the staff aim to "Always operate with generous open hands."

Evidence from the interviews indicated that interviewees believed the funding given to their areas was generous. The tots and kids' leader commented: "They've always been incredibly generous and they will pretty much give us what we need to do to get the job done." YW1 related how she has never "pushed back" on funding given to the youth, because, when compared to other places she has worked, she feels "They're really generous here at [FS], anyway with what we need."

Generosity included providing funds in the budget for staff in special circumstances. For example, when the tots and kids' leader resigned from her position in 2013, she was given 3 month's paid leave as a thank you for 25 years of service. Similarly, a member of the Dream team continued to be paid his salary while studying at Bible College in Canada. His salary was paid irrespective of whether he returned to FS to work after completing his studies. FS also extended generosity to two of their interns

(a husband and wife), who were from Slovenia, and were in difficult circumstances:

After they were here for about six weeks, it was clear [the intern's] mother was dying. And we picked up the tab for them to go back to Slovenia to be there for the funeral. [FS] picked up the cost of all the airfares. (ITM2)

Furthermore, the People Care team leader mentioned how FS paid visiting speakers well. "We pay speakers who come very generously, plus meet all of their accommodation costs and transport and costs and all that sort of stuff." She contrasted FS' generosity in paying visiting speakers with the situation facing a colleague at another church who was "asked to go from Wellington to Auckland to speak at a church and he was given \$50 ... and he had to pay for his airfares, return airfares."

The Families' team leader related how FS "Always tries to be over generous where we can, so if a family's in need, we'll always try, if it fits in with the budget, we'll try and help them out." The People Care Team leader spoke about how money was set aside in the budget to fund those in need: "So there's a budget there for helps [sic] budget. There's a budget for any number of situations where people need help or finances or something like that." Similarly, YW2 believed:

[FS] is probably one of the most generous work places or churches that I know of. They will, with no expense spared, try and help other people ... I've never had a time where I've had someone who's needed a food parcel or anything where I've been told "You can't spend the money because we don't have it."

SL1 remarked how FS has, in a quiet way, given away money to those in need:

We try and be really generous with things that we do and who we do it to, and there's been a lot of times over the years where everything from money for cars to playgrounds for disabled kids that most people wouldn't even know about. It's not that we want to wave it from the rooftops. We just want to be generous.

ITM3, an accountant, expressed FS' view on generosity in financial terms, saying: "We'd rather be generous ... and have less cash in the bank ... Than being tight and having more cash in the bank." SL1 also expressed his preference for FS to be generous rather than accumulate money:

Where we can and where we are able, without throwing the whole budgeting process into chaos because we're just being reckless, we really try to be generous. That's why over the years, we haven't had surpluses. We're not aiming for surplus. We're trying to bless people, so if we've got surplus and there's a need, I wouldn't bank it. I'd give it to the need.

The People Care team leader reiterated the opinion of SL1 that their desire was to balance being generous with wise financial management. In her opinion, FS is "Wise and careful, not frivolous or silly, but [with] a real value on generosity as well."

To summarise, it is apparent from the evidence presented in section 4.4 that the reinforcement of the norms of valuing people, integrity, authenticity and generosity underpinned teamwork. This teamwork enabled managers to work together to achieve the common or shared goal. The section that follows examines budgeting and FS' commonly understood goal.

#### **4.5 Budgeting and the Common Goal**

According to SL1, the purpose of FS was:

To see God's Kingdom established in the earth. We want to see God glorified. We want to see people come to Christ. We want to see families healed and lives touched and people changed and we want to see the gospel.

The notion of seeing the Kingdom of God established on earth was also referred to by the Dream team leader. Her shared understanding of the common goal was: "Wanting the Kingdom of God to be progressed. We want our people that are within [FS] and ones that aren't yet followers of God to find God, and we want them to develop in their giftings." Likewise, the tots and kids' leader referred to the primary goal being funds used for Kingdom purposes. "We want [money] to be used for Kingdom purposes,

whether it goes to missions, or helping people out, or the poor and the needy, or setting up a new ministry by helping support a new ministry.” Other interviewees referred to their shared understanding of the common goal in terms of a relationship with Jesus. “So first and foremost, it’s about helping people develop a relationship with Christ and becoming disciples, and so that includes how you live your lives and how you share and how you [are] a generous person” (ITM3). Similarly, ITM1 believed the commonly understood goal was: “For people to be blessed and built up in their walk with God and to be continuing with Him.” Likewise, the intermediate leader considered the primary focus was: “Jesus and the Church and helping people in the best way we can to know Jesus more and live a life for Him.”

It is apparent that the shared understanding of the goal of FS was spiritual in nature, and related to seeing the Kingdom of God being established on earth and developing a relationship with Jesus. In the opinion of SL1: “Our bottom-line is not profit. Our bottom-line is people.” He believed the finances of the church (and, by implication, budgeting) played a secondary, supportive role in extending the Kingdom of God:

[Money is] secondary. It’s a by-product. It’s a by-product of what we do ... I think once finance becomes the key issue of a church’s life, something has been perverted. Ministry is the key issue. Yes, ministry costs money. But our, our belief is that if it’s valid and if God’s in it, He’ll supply. So that’s how we function.

Five other interviewees stated that money was of a secondary focus at FS. The responses from these interviewees are displayed in Table 4.3.

The People Care team leader pointed out that the secondary focus given to finances (and, by implication, budgeting) at FS was reflected in the feedback and development plan (FDP), which was used to evaluate staff performance. Of the 60 or so questions in the FDP, only 1 question asked about budgeting. The Families’ team leader believed that whilst money (and budgeting) was not a primary focus, FS’ finances were still managed well:

Table 4:3. Interviewees' beliefs about the importance of money

Interviewee	Quote
Young adult's leader (YA)	"Pastoral work is always about the heart, it's not really about the finance, and so the finance is just kind of a thing that happens in order to enable you to do your job."
Independent team member one (ITM1)	"They're not really that interested in money ... it just seems like that's not the priority."
Dream team leader	"I think [money] is secondary, but at the same time, we want to be realistic about we have limited resources, limited finances and so you've got to make it work at the same time."
Senior leader two (SL2)	"We try to keep budget, but we're not financially driven. That's not our priority. Obviously we have to take that into account and we've got to be sensible and good stewards, but [money is] not what pushes us really."
Finance administrator	"[Money] is very secondary. It's a means to an end. In the end, it's what allows us to operate, but it's not what causes us to operate."

It's such a bizarre balance ... from my eyes is [money is] not the primary focus, but also in my opinion, that doesn't mean it's not well looked after. It doesn't mean it's haphazard. I just think it's not the primary focus.

ITM1 articulated the same concept in a slightly different way. "I mean we have to attend to money matters and we do attend to them as needed, but they're not a focus, ever."

In this section, we have seen how the shared spiritual goal of extending the Kingdom of God was born out of a Christian worldview, and represented a "shared vision and purpose" (Pearson et al., 2008, p. 957) among staff. Nahapiet and Ghoshal (1998) use the term "shared systems of meaning" (p. 244) to refer to the same phenomenon, while in this thesis, it is referred to as a shared view. Likewise, the secondary focus on money (and budgeting) represents a "shared understanding of the business" (Huppi & Seemann, 2001, p. 36), as those involved in budgeting all agree on the secondary importance of money to the running of FS. This shared understanding or "agreement on how the business works" (Huppi & Seemann, 2001, p. x) is part of what this thesis terms a shared view. In the section that follows, we turn our attention to how budgeting promotes cooperation between staff to achieve the common or shared goal.

#### **4.6 Budgeting can Bring People Together to Work Cooperatively towards the Common Goal**

In the context of budgeting, interviewees referred to making decisions that were in the best interest of FS. In the opinion of the finance administrator:

Everyone realises that there's a limited pool of money and there's no like "Oh, my ministry's more important than yours. My [area's] more important than yours. I should have that money." That's just something we don't have. So I think in terms of the team thing, everyone works for each other, rather than against each other.

Likewise, the tots and kids' leader was aware of the needs of others when preparing her budget:

I guess it's a sense that you're part of a team, so you can't be overboard and silly about your budget because there's only

one pie and everyone is needing a slice of that pie, and so I guess it keeps you realistic and open that if you are cut back, there are good reasons for that. Your budget is only a submission, and so you would be prepared to tweak and pull things back if that's what's needed for everyone to get a fair share of the pie.

YW1 related how the finance administrator used the analogy of a pond to explain the notion of working together. "Because he's always bringing it back to: "Because you guys are only just a part of the pond. There's a bigger pond out there that also needs to be fed.'" The People Care team leader related how her shared understanding of the goal influenced her when the finance administrator reduced her budget:

[The finance administrator is] shaving money off my budget, but we still do it in a light-hearted cooperative manner. There's a real sense of, you know what? We're both working for the same purpose here. You're not my enemy. I'm not getting what I want, but, we're working for the same goal, and that's fine ... We're working for the bigger need, family, not just for what I want.

Likewise, the Dream team leader considered that the commonly understood goal influenced the way those with budgeting responsibilities approached budgeting:

People are passionate about their own areas, but at the same time, again, people are here because they love [FS] as a whole, and I think that comes through in the way that people are really reasonable about budgeting. They realise they can't have all the money because there's other really valuable stuff going on in other departments and I think that's again probably part of the community spirit of knowing each other, then you're going to be really reasonable in your requests.

She continued by saying that while people were passionate about their areas, "I don't think there's anyone trying to build their kingdom at the expense of other people." SL1 commented that he could not remember a leadership team member behaving in a selfish manner:

I think it shows up in the way that you don't see them fighting for portions of the pie. You don't see them sort of parochial, pushing their little barrow at the expense of others. They all come to the table wanting the best across the board, and, and I've never, ever been in a discussion where I've felt like "That

was a bit selfish. You're really pushing for your team in a way that's illicit. In a way that's really meaning that other people are going to get stuck because you've pushed your agenda.

The habit of putting what is best for FS first is akin to Leana and Van Buren's (1999) notion of associability, a component of their model of organisational social capital. They define associability as "the willingness and ability of participants in an organization to subordinate individual goals and associated actions to collective goals and actions" (Leana & Van Buren, 1999, p. 541). Furthermore, by laying down individual goals and working cooperatively towards FS' goals, identification occurs. Identification, or "see[ing] themselves as one" (Nahapiet & Ghoshal, 1998, p. 256) with another group occurred as interviewees identified strongly with FS' goals.

The finance administrator was also of the opinion that the notion of the "bigger picture" acted against people building empires. ITM2 believed that the servant approach to leadership seen at FS negated any tendency towards empire building:

I think there's a high level of servanthood, with the servant leadership type thing. At all the levels of people, the leaders seek to serve the people that they're responsible for. So it's not trying to build their own little hierarchy.

The People Care team leader mentioned that she had not seen any competition between leadership team members for resources:

I don't see [areas] competing at all. Yes different [areas] have different amounts of budget, because they have different requirements ... At a leadership team level, we all lead a[n] [area], or most of us lead a[n] [area]. We would look at each other's budget and think "Well go for it. That's what you need."

In contrast to empire building, two interviewees spoke of making sacrifices in their budget:

There's definitely times where's it's like, no, you can't have that because we don't have the money for it. But I think when you take a position on the staff at a church you expect that there will be sacrifices somewhere. You can't have everything all the time, because it's a church. It's not a business (YA leader).

Likewise, in the context of capital budgeting, the People Care team leader referred to a sacrificial attitude that led to a focus on the common good:

I think in all honesty, it's sacrificial in as much as we all are thinking about the greater good. The good of people who come to [FS]. Not our own good, or our own departmental good or our own kingdom.

Whilst the shared understanding of the common goal of FS is spiritual in nature, money is required to achieve the common goal of extending the Kingdom of God. Those with budgeting responsibilities were conscious of the common good and worked cooperatively to ensure budgeting decisions were made in FS' best interests. By doing so, those with budgeting responsibilities were identifying with FS, and seeing themselves "as part of the collective" (Pearson et al., 2008, p. 959). The notion of working together in a cooperative manner is raised in the social capital literature (Cohen & Prusak, 2001; Fukuyama, 2001; Huppi & Seemann, 2001; Putnam, 1993). Working cooperatively towards the shared spiritual goal was also seen in the way managers did not seek to build their area into an empire, and also in a sacrificial attitude towards budgeting. The budgeting process itself also encouraged social interaction, as explained in the next section.

#### **4.7 Budgeting Encourages Social Interaction and Fosters Relationships**

Evidence from the interviews indicated that the budgeting process encouraged social interaction and built relationships, involving formal and informal network ties. The preparation and monitoring of the budget entailed interaction between leadership team members, as has been outlined in section 4.3. The budget was also discussed at leadership team meetings throughout the year, as the leadership team discussed the effect of decisions made on the budget and FS' finances. ITM3 described the interaction between leadership team members as "a robust discussion." He continued:

You can be honest with each other. It's developed a really healthy relationship in the Leadership Team in the sense that

we're quite happy to disagree and come to a resolution and so I think because of that, we've actually had some really healthy discussions.

The notion of an honest, robust discussion was also mentioned by the People Care team leader:

A real camaraderie, a real close, quite a tight-knit, very robust discussions. We're not afraid of conflict. We're not afraid of disagreeing with each other. We're all pretty opinionated. We're very, very honest. Blunt. I couldn't do that with my [People Care] team, because some people would be offended.

Likewise, the Dream team leader commented on the honest discussions.

"I think we are really close and can have those pretty honest conversations about where we're at." Four of the leadership team members spoke of team members being free to disagree with each other.

According to SL1:

We had something just last week, where one of the guys said: "I think de da de da." Somebody else said: "Oh, no. I don't think that. No, I don't see it that way at all." And so there was a genuine, warm, robust discussion around "Well, how do you see it?" "Oh, not like that." And away we went.

In a similar vein, ITM2 considered that his input was welcomed and he was "free to raise" any concerns he had. The finance administrator believed:

I think we've got a healthy balance between getting on, and disagreeing. So our meetings are not meetings where we all nod and go "Yes." There's a healthy amount of "Actually, I completely disagree with that." That's why I say I think [the leadership team meetings] are really good, because we're at a stage where we can disagree with each other and not go away in a huff, or ... not take it personally.

SL2 commented that while there was not "any sense of dividedness there ... that doesn't mean we don't disagree." Leadership team members did not consider there was any change in the way they interacted when budgeting was the topic of their conversation.

There were occasions when issues arose between people on the leadership team. SL1 remarked: "We have our moments like everybody

does, we have our disagreements.” ITM2 commented on how such issues are managed at leadership team level:

If somebody said something that offended somebody else ... if there was something that we felt was unhealthy or somebody said something which was a bit unjust, normally between us all it would be challenged. It would be brought out in the open ...

SL1 remarked: “I don’t recall the last time we have gone out of [a leadership team meeting] fuming.” He continued by saying that the leadership team would not leave the issue unresolved:

I’d say: “Come on, we can’t leave it like this. We’ve got to sort this.” This doesn’t mean you’ve got to agree with me, but we’ve got to come to a point where there’s genuine Christian friendship and grace on the issue and even if we disagree, we decide how we’re going to go forward from there and not just leave it in some kind of impasse where there’s anger.

According to the tots and kids’ leader, and SL2, staff were encouraged to approach issues with others in line with the biblical principles laid out in Matthew chapter 18. First, the disagreement was to be talked through with the person concerned, and if the issue could not be resolved, the team leader was approached. If the issue was still unresolved, the matter would be taken to SL1. This framework for resolving conflict meant “issues don’t simmer. We’ve got avenues through which to work through those things” (tots and kids’ leader). It appeared the approach to resolving conflict outlined in Matthew chapter 18 was effective, as interviewees reported few instances of tension or conflict.

It is apparent the members of the leadership team had strong bonds, or bonding social capital (Putnam, 2000). However, “strong norms and mutual identification” may also limit a group’s “openness to information and to alternative ways of doing things, producing forms of collective blindness that sometimes have disastrous consequences” (Nahapiet & Ghoshal, 1998, p. 245). Cohen and Prusak (2001) suggest a solution to a tendency towards groupthink is “to let more people and information enter in from outside the group” (p. 71). According to the finance administrator, the leadership team realised that becoming insular was an issue they needed to be aware of.

To this end, in 2012, they brought three new members, who were not on the staff, onto the leadership team:

[The leadership team had] become quite insular, so it's been really good to have some people who weren't on staff ... Because they bring a different perspective ... Because they sit in the congregation week after week and don't sit with us during the week.

All three independent team members considered they were independent.

ITM2 said that for himself and his wife (ITM1):

We see part of our role is, in fact, because we're independent of the staff, [there is] some degree of responsibility that's on us to try and help make sure that the organisation is not solely administered by the staff, but there's also outside influences coming in and examining what's going on or looking at it, but from a positive point of view.

During the year, departments interacted while carrying out their budgeting roles. An example of such interaction was the snow day, where a truckload of snow was delivered to FS' carpark during a Sunday morning service. Three areas contributed towards the snow day:

[Tots and kids] set up a treasure hunt in the snow, so the resources for that came out of [our funds], because that was kind of like for the kids, so we said: "We'll supply that." And [the youth] had some stuff that they put towards it, just in terms of the structure of the slides and things like that. But thinking about it, a big portion of the cost of that came from the leadership team saying: "We're going to support that as a church and we're going to put money towards that, because we see the value in it." (tots and kids' leader)

Another example arose when one of the People Care team wanted to attend a conference that was "really important for her self-development" (People Care team leader). The People Care team leader continued the story:

I had part of the budget, so that team member also had some budget that she could take from. So I went to [SL1], and said: "I haven't got the full budget". She's got a little bit of budget in her [area] budget. I've got some in the People Care team budget. We've got some in [the] staff training budget. What's your feeling? He said: "No, go for it totally." Went to [the finance administrator] and said: "I'd like to take a bit from each

budget. Are you okay with that?” He said, “Yep, that totally fits. That’s fine.”

Monitoring the budget during the year also involved formal network ties. According to the YA leader, the finance administrator has an open door policy:

I’ll often just duck my head into [the finance administrator’s] office and be like, “Hey, if I need to know where we’re at, can you do a quick printout for me of where we’re at, so that I can track?” And he’ll just do it and that’s usually no problem at all.

Likewise, YW2 commented: “If we ever need anything or want to know where we’re at, [the finance administrator’s] door is open for us to always go in and ask.” The Families’ team leader also spoke of the finance administrator’s “open door policy for staff members to come.”

Evidence from the interviews indicated that two of the Families’ team used their informal network ties to help them in their budgeting tasks. In this thesis, informal network ties refer to relationships with those outside of the formal budgeting process. Informal network ties also refer to relationships occurring outside of formal organised organisational groups, such as committees or teams. YW1, who did the majority of the budget preparation for the youth area, mentioned that she used the finance skills of YW2’s fiancé, who was training to be an accountant, and was also a leader in the youth area:

He is excellent with money, and he keeps us on track with “Hey, I mean you guys, you want to make sure you’ve collected everyone’s money for this [event].” Rather than, because, I think, in the past, it would have been like, “Ah, if you’ve got your money, go and see YW2.”

YW2’s fiancé also set up a spreadsheet that helped record spending on the youth area credit card.

The tots and kids’ leader used the skills of her husband, an accountant, who also used to be the financial advisor to FS. She acknowledged that she struggled with understanding financial matters:

Even understanding a set of accounts has been a challenge for me – the bracketed parts, the minuses and the plusses and the overspend and how all that works. And we've also got really complicated things in that we've got a camp that falls in March, and so it is last year's income, but this year's expenditure, so there's always a little bit of an anomaly there that it's really hard to get my head around.

Her husband has helped her understand budgeting and has also helped her with preparing her budget:

So he's been a huge help in actually helping me understand the budgeting process, and working out budgets as well, so I think I've had an inside hand in that which has been hugely helpful. So he's kind of trained me I guess as well. (tots and kids' leader)

He also helped her with any budgeting-related problems arising during the year. "I can say to [him], 'What happened there?' And he can actually go back through the accounts and say: 'Okay, this is what happened.' ... So he's able to help me pinpoint what the problem is." She explained that while the finance administrator "is always really good at sitting down and explaining things to us", she has also been conscious that he is "really busy". In previous years, her husband had helped her with budgeting problems at home.

It appeared that the finance administrator was aware that some managers were not skilled at preparing budgets for their areas. In the 2013/2014 financial year, he asked managers responsible for preparing a budget to make a formal appointment with him prior to the preparation of their budget so that he could give them some basic training in budget preparation:

I think people will only put as much effort into their budget as their skill allows. So those people who aren't finance-minded will do me a budget to their level of knowledge, whereas if they come and sit with me ... I can perhaps give them a little bit more knowledge and a little bit more skill in terms of preparing their budget. (finance administrator)

Evidence from the interviews suggested that the formal and informal meetings that occurred at FS among the staff influenced informal network ties. Formal meetings included the weekly staff meeting, team building

days, and staff retreats. Alongside these formal meetings were informal gatherings, such as daily morning teas, celebratory morning teas, Christmas celebrations, and staff meeting with each other socially, out of work hours. However, staff gave mixed reports regarding the influence of these events on their budgeting tasks. The Families' team leader considered informal gatherings of himself, and the two youth workers, influenced budgeting in his area:

Because we've fostered a lot of fun and community around food and enjoying our jobs, I'm sure it does somehow when we come to the budgeting level of candidness and trust, I think [it] is probably affected by community.

ITM3 believed that knowing staff members informally helped him understand their attitude towards money and stewardship:

I guess my invested interest is about stewardship, particularly of people's resources. And you know the people and why they would ask for certain things to be funded and what's their motives. So I think it's very much an important process of knowing the people.

The finance administrator commented that the informal and formal gatherings helped him build friendships and trust with other staff members. "Because we're all friends, there is a trust [that] exists. So they don't see me as the scary finance guy who's just out to cut their budget, because they know who I am." The intermediate leader was of the opinion that the formal meetings could potentially help her in her budgeting tasks:

I suppose it helps if in terms of if you're needing help with something, or again, like wanting to know information about what they did and how much that cost, having those relationships means you can more freely go and ask them.<sup>29</sup>

Attending the weekly staff meeting helped ITM1 and ITM2 get to know the staff, and also helped them in their duties at leadership team level, one of which was budgeting. "You get to know their heart, and so when they make a request or something like that, you already know what their heart

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<sup>29</sup> At the time of the interview in November 2012, the intermediate leader had been in her paid position for 18 months.

attitude is” (ITM2). Informal gatherings of leadership team members helped SL2 in her duties as a leadership team member when money was discussed:

You understand a person more and where they’re coming from. Why they have certain ideas that they do, why they might have certain different thoughts ... So you’re understanding each other far better in terms of where they’re coming from.

SL1 believed the opportunities for staff to meet did not help him directly in his role in the budgeting process. However, he commented that they did help him indirectly, by building relationships with other staff members.

Cohen and Prusak (2001) note that social capital can be encouraged in an organisation by the provision of communal places where staff can meet. Such spaces are part of the social capital framework in this thesis. At FS, the area most frequently used for staff to meet socially was an area where staff met to have morning teas. This area was centrally located, with several office doors opening into it. Some staff went over the road to a nearby café to meet up. Staff would also meet informally in the kitchen area. Two staff members referred to “hallway conversations” (Dream team leader), or “ducking into offices to say hello” (YA leader).

In this section, how the budgeting process has encouraged social interaction and relationship building, both at leadership team level, and between area leaders has been examined. As has been outlined in this section, the honest discussions, interaction, and relationship building existing between those with budgeting responsibilities occurred as they worked cooperatively towards attaining the commonly understood budgeting goal. The next section summarises the chapter.

## **4.8 Summary**

In this chapter, the influence of the budgeting process on social capital at FS, a not-for-profit church, has been examined. FS has four core values which are norms at the organisation, and which are pivotal to the way in

which it operates. Interviewees indicated that they identified with, and had internalised, these values.

The budgeting process reinforced the norm of valuing people through supportive relationships and teamwork. The norm of teamwork was particularly evident among the leadership team, and, along with the other norms operating during the budgeting process, it helped team members to work together to achieve a commonly understood goal. The norm of integrity was apparent in the budgeting process, as were the related norms of honesty, transparency, and trustworthiness. The budgeting process was found to reinforce these norms. Likewise, the budgeting process was found to reinforce the norms of authenticity and generosity.

The primary commonly understood goal was spiritual in nature, and involved extending the Kingdom of God on earth. Money, and by extension, budgeting, played a secondary role, but was viewed as necessary to achieve the primary commonly understood goal. The spiritual goal, born out of a Christian worldview, represented a shared view at FS.

The budgeting process brought people together to work cooperatively towards the commonly understood goal. This cooperative behaviour was seen in making decisions that were in the best interests of FS. Cooperative behaviour appeared to negate any tendency towards interviewees' seeking to build empires. Indeed, there was evidence of a sacrificial attitude, leading to a focus on the common good.

The budgeting process encouraged social interaction and built relationships between managers, with interaction between leadership team members described as being an honest, robust discussion. The leadership team introduced three new independent team members to guard against becoming insular. There were instances where those with budgeting responsibilities received help from friends and family when carrying out their budgeting tasks. The various formal meetings and informal gatherings of staff helped some interviewees with their budgeting tasks. However, other interviewees found these gatherings were helpful in

a more indirect manner. Social interaction and relationship building occurred as interviewees worked cooperatively towards attaining the commonly understood budgeting goal. The chapter that follows examines how budgeting influences social capital at a privately-owned company, Independent Testing.

## 5. Independent Testing<sup>30</sup>

### 5.1 Introduction

This chapter presents the findings from the second case study organisation, Independent Testing (IT). This chapter focuses on the budgeting process in a private company that is majority-owned by a husband and wife team. Pearson et al. (2008) indicate that a family firm's history, norms, unique familial influences, and family identity contribute to a family firm's distinctive nature. This chapter highlights the influence of these factors on budgetary planning and control.

The remainder of this chapter is structured as follows. The next section provides background information on IT. The history of the budgeting process at IT is outlined in section 5.3. Section 5.4 examines how the budgeting process reinforces IT's norms and values. The common goals are addressed in section 5.5, and in section 5.6, I consider how budgeting can bring people together to work towards the common goal. In section 5.7, I examine how the budgeting process encourages social interaction and fosters the building of relationships. The chapter is summarised in section 5.8.

### 5.2 Background to Independent Testing

IT is a privately owned analytical testing laboratory which was established in 1984 by a husband and wife team. The husband is the managing director of the company, and his wife manages the payroll team. In 2012, they owned 76% of the shares, with the remaining 24% of shares being owned by 23 staff. IT's main site and building, along with another smaller site, are located in a large North Island city in New Zealand. Two further sites are located in the South Island. At the end of March 2013, IT had 322 employees, representing 304 full-time equivalent (FTE) staff. For the financial year ending 31 January 2013, IT had revenue of around \$33 million.

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<sup>30</sup> Independent Testing is a pseudonym used to protect the identity of the organisation.

IT is governed by a board of five. There are two independent directors, the managing director, and two nondirector positions held by the general manager, and the corporate services manager. The executive management team, which is made up of the managing director, the general manager, and the corporate services manager oversees the running of the organisation, and meets on a weekly basis. The company has four revenue-generating divisions: Alpha; Beta; Gamma; and, Delta.<sup>31</sup> Around 40% of the company's revenue is generated by Alpha division, with the Beta and Gamma divisions each generating around 25%. Delta division generates the remaining 10% of revenue.

These four divisions are overseen by the general manager (see Figure 5.1). The Alpha and Beta divisions are located at the main site, while Gamma division is located at a site four kilometres away from the main site. The Alpha, Beta, and Gamma divisions differ according to the nature of the analytical tests they carry out. Delta division has two sites located in the South Island. Each division has a division manager, and one or more sections which carry out the scientific tests. Each section has a section manager, and each section has one or more team/s grouped according to the nature of the testing they do. Each team has a team leader. Each division has several client service managers who interact with, advise, and support clients. Each division also has a team of technologists who support the sections in their division, and who are involved with setting up new tests and new technology. Figure 5.1 indicates how the interviewees in the Alpha, Beta, and Gamma divisions fit into IT's organisational structure. The corporate services manager manages corporate services which provide the enabling services for the four revenue-generating divisions.

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<sup>31</sup> Pseudonyms have been used for names of the divisions to protect the identity of the organisation.

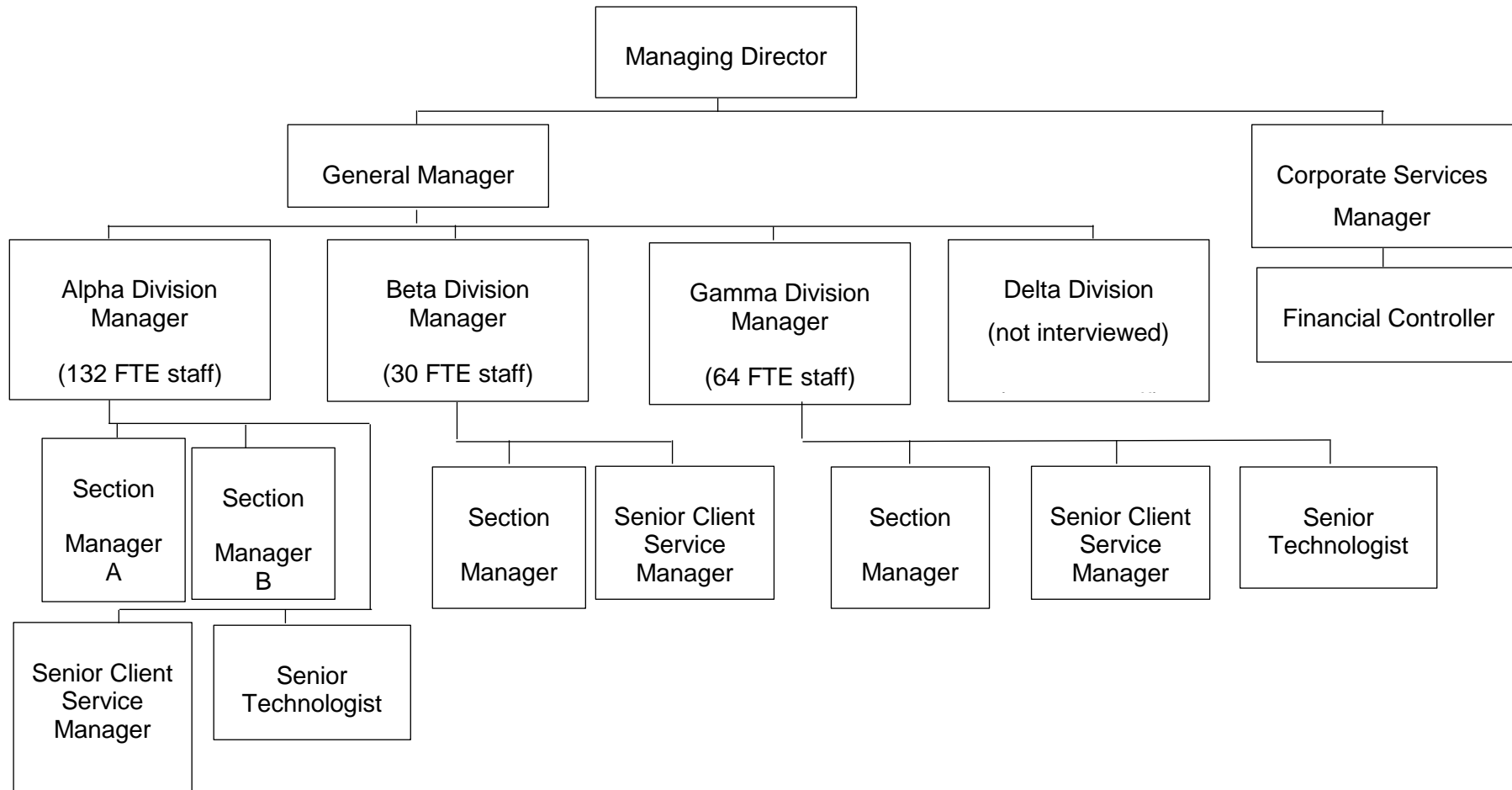


Figure 5:1. Organisational chart of interviewees at Independent Testing.

### 5.3 History of the Budgeting Process

According to the managing director, no budgeting was carried out in the first 15 years of IT's operation because the staff were struggling to manage the workload:

To be honest, in the early days, we never did any budgeting at all. When we were a small company, we just got into it ... We've always just enjoyed continual growth, and the immediate challenges are how do we cope with the work coming in the door? ... And so, as a small cottage industry, we really didn't have a very strong sense of budgeting.

It was only around 2003 that the first signs of a formal budgeting process appeared. The structure and rigour of the current budgeting process were mostly introduced by the general manager when he joined IT in 2007. According to the general manager: "It's really largely only been since I've been here that we've introduced the degree of rigour into the process that exists right now."

Another factor that influenced the budgeting process was the impact of the global financial crisis. The organisation fared well through the first part of this crisis. However, in late 2010, there was a marked decline in revenue. When it became apparent the decline in revenue was a trend, measures were put in place to save cash by halting capital expenditure purchases and adopting a sinking lid policy on hiring new staff. As IT has high fixed costs, it was not easy to reduce short-term costs to counter the decline in revenue. Traditionally, if forecast revenue is not achieved, costs can be reduced in the medium to long-term. There is, however, little IT can do to cut costs on a short-term basis other than reducing staff.

As a result of the decline in revenue, IT made only a very small profit for the financial year ending 31 January 2011:

It was either something like 5 [% EBIT]<sup>32</sup> or 1 [% EBIT], depending on which way you want to look at them, but it was way, way down. That gave me a real fright. And the biggest

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<sup>32</sup> Earnings before interest and tax.

fright was, if we had it much worse, we would have made a loss, and so we would have worked hard for a year, and lost money. (managing director)

The poor financial performance resulted in some changes being made to make the company more efficient. Whilst no jobs were cut to ensure that IT could remain profitable in the financial year ending 31 January 2011, the crisis necessitated a restructuring at senior management level, with some senior management jobs being cut. A conservative approach was adopted to setting budget targets and there was a focus on managing costs and operating more efficiently. The competitive marketplace IT operates in was a concern to management and acted as a further impetus to achieve efficiency. Nonetheless, IT did retain its strategy of positioning itself in a competitive marketplace, as evidenced by the purchase of two smaller laboratories in 2010 and 2012. IT currently faces the threat of a large international analytical testing laboratory entering the New Zealand market.

#### **5.4 Budgeting Reinforces Organisational Norms and Values**

IT has a set of five organisational values. These values, as stated on IT's website, are: "We value people"; "We enjoy our work"; "Honesty and integrity"; "Innovation"; and, "Opportunism." IT's website describes the values as follows:<sup>33</sup>

- *Valuing people* is to do with treating others fairly, with respect, and working together as a team.
- *We enjoy our work* covers employees' understanding the importance of their role, having opportunities to learn and innovate, and maintaining a healthy work/life balance.
- *Honesty and integrity* are concerned with delivering on promises, courageously confronting issues, and being open and honest in dealings with others.
- *Innovation* involves finding new and better ways to do things.

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<sup>33</sup> The values described above are a paraphrased version of the organisational values appearing on IT's website.

- *Opportunism* relates to the business being agile and able to respond to opportunities when they occur.

The family culture present at IT is a further norm that influences the budgeting process. The five values, along with the family culture, have become embedded norms in the social fabric at IT, as they provide “a degree of consensus in the social system” (Nahapiet & Ghoshal, 1998, p. 255). In this chapter, the terms value(s) and norm(s) are used interchangeably.

The values were formalised after the general manager started work with the company in mid-2007. The general manager was instrumental in formalising the purpose, vision, and values for IT. The managing director tells the story of the general manager’s involvement in formalising the values:

When [the general manager] arrived, one of the first things he did was in a very controlled and disciplined way, took us through a strategic planning process, and it took some weeks. And he organised the meetings. He chaired the meetings. He took all the minutes. He did a huge amount of work! But it was probably very, very good for the business, and part of that whole exercise was to define our vision and our values. There would have been a few meetings where we tried to capture “What are the company’s values?” And the ones we settled on, and the words that [the general manager] finally wrote<sup>34</sup>, we thought were pretty much spot on.

It would seem from comments made by both the managing director and the general manager that the values were a reflection of what was already occurring in the organisation, rather than their being imposed from above. As the general manager commented: “I really do feel that [the] values are more a reflection of what you do naturally, rather than something that you should tell people that they should be doing.” Pearson et al. (2008) note that the values present in a family firm can shape the firm’s vision, norms, and behavioural patterns. This is the case at IT, with the company’s values (norms) being closely linked to the personality of the managing

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<sup>34</sup> The values are outlined on IT’s website.

director. The managing director's son, who is also the division manager for Alpha division, recognised the close link between IT's values and his father's *modus operandi*. "I look at these values and I go, 'Yeah, that's my Dad. This is the way he is. This is stuff that he likes.'" The strong influence of the managing director's personal values on IT's values is a demonstration of an appropriable organisation, a concept which forms part of the structural dimension of social capital in this thesis. In this case, the personal values of the managing director have been infused into IT's organisational values.

These values are communicated in a number of ways including being displayed on posters around the various buildings, forming part of the new employee induction process, and being referred to in the general manager's quarterly road shows. The values are also communicated by management. "The ways that we communicate those values to people is [sic] about decisions that we make as leaders about the behaviours that we encourage and recognise in people around here" (general manager). This method of communicating values is supported by Cohen and Prusak (2001), who advocate that leaders establish and maintain organisational values and norms through their actions. Arregle et al. (2007) believe that family values and norms can be transferred to an organisational setting by selecting and promoting staff who "support and share [the] family's values and goals" (p. 81). Echoing Arregle et al. (2007), the values at IT were perpetuated by a policy of hiring staff who fit with the company's values.

Six of the managers interviewed described how the values were either evident in the working habits of those they interacted with, or had been taken on personally and internalised. The senior client service manager in Beta division stated: "I take [the values] as a given in my work. I work that way anyway." In the opinion of the senior technologist in Alpha division "people are working whether consciously, or subconsciously, to those values." The division manager for Alpha division (the managing director's son) has been "exposed to these sorts of values" throughout his life, and he has "taken them on and internalised them." Likewise, the senior technologist in Gamma division believed those who have been working at

IT for some time have the values “embedded” in the way they work. He recounted a practical example of how the value of valuing people is demonstrated in his job:

The first thing I tend to do when I develop a new method and I've had one of the technicians help me out on it, or use it for the first time, I go show them the results and I say: “This is good.” And it makes them feel good that they've done well. I give them some thanks. (senior technologist, Gamma division)

Similarly, the section manager in Gamma division related how IT's values influence the way he works:

If people make a mistake, we want to encourage them. We're not going to tell them off for making a mistake. You need to let us know, you need to be honest and open ... and then we'll look into it, well, why did you make that mistake?

From the comments made by interviewees, it appears they have internalised IT's values rather than “merely accepting a [value] as legitimate” (Coleman, 1990, p. 293). By internalising the values, staff are identifying with the organisation, and are displaying relational social capital. The general manager explains how he views IT's values in relation to budgeting, saying:

So it's not so much a case of sitting there saying: “Do these values affect the budgeting process?” It's more of a case of saying: “I'd be very concerned if us doing our budgeting process or doing our testing, or doing just about anything else that we do if we discovered that there were examples arising where we were compromising on these values.”

In the following four sections, the influence of the budgeting process on the values and family culture is examined.

#### **5.4.1 Valuing people.**

The budgeting process reinforced the valuing people norm through its effect on staffing policies. Staff were given 7 days of sick leave rather than the 5 days required by law, and those who had been with the company for more than 5 years were given 5 weeks annual leave rather than the statutory 4 weeks. IT was also generous with bereavement leave. Valuing people also extended to providing fair remuneration to staff:

We should be making sure that we are not compromising the people who work here in the organisation because of decisions that we're making financially as part of our budgeting process. So ideally we should be providing for an ability to give people a fair change in remuneration each year to reflect changes in cost of living and allow us to reward good performance. (general manager)

The managing director commented that IT had given staff an annual increase in salary "even in the years when many companies were having no salary increases." Prior to 2013, there had been a focus on increasing salaries for technologists and senior management. There had also been a rise in pay rates for laboratory technicians; this change occurred in 2013. The rise in pay for laboratory technicians "addressed the relativity of technician remuneration against some market benchmarks" (general manager). According to the general manager, this rise in laboratory technicians' pay rates impacted the company's finances, as there were a comparatively large number of laboratory technicians.

In the opinion of the section manager in Beta division, having enough staff to comfortably manage the work was important. "I mean, if you value people, you make sure that you're not overworking them, running them into the ground, so you include the staff you require at the budgeting process to make sure that you're not doing that."

The company's strong focus on seeking to retain existing staff, and thereby reduce staff turnover, is a further example of how IT valued its staff. IT also carried staff through seasonal troughs in work, preferring to share staff between divisions to meet seasonal mismatches between revenue and resourcing rather than lay people off. This concern to retain staff and provide job security was also reflected in the approach taken by IT to lower than expected revenue. Due to IT's high fixed costs, measures taken to reduce costs when revenue was weak took several months to come into effect. According to the managing director, when revenue was down "Ninety-two per cent of it drops to the bottom line." During times of poor revenue, senior management elect to take a sinking lid policy on replacing staff rather than lay off staff to reduce their biggest expense, the

cost of labour. The division manager for Beta division described how IT differed from his previous employer in its approach to laying off staff:

[IT] doesn't have much of an appetite for that sort of aggressive "Okay we're going to have to meet budget, so you need to lose staff." In my last business, they'd just say: "Give me a list of 10 people by tomorrow lunchtime, and if you don't give it to me, I'll write the list and those people will be losing their jobs."

The senior client services manager in Alpha division related how he would "react very strongly" to a budgeting process that didn't incorporate the values of valuing people, honesty and integrity, and enjoying work:

If I was involved in a budgeting process that devalued any of those [five values on the sheet], if I got told: "Okay you've got to get 25% sales growth." And I might say "I don't think I can do that." "So, too bad, you've got to find it, or you're out the door." Then that's not valuing people. I wouldn't enjoy that. I don't feel that that's being honest and to have integrity, because I don't think I can do it.

While taking a sinking lid policy and not replacing staff resulted in what the division manager for Alpha division described as a "slow and sluggish" approach to poor revenue, the decision demonstrated the priority IT put on job security for its staff. The financial controller commented:

There's no way that when we do the budget, [we] say: "Oh we don't meet this target by \$100,000. Well that's great, that's two people. Let's go and fire two people." That does not happen. You know, it just will not happen. The values of [the managing director] and the company is [sic] just, that doesn't work.

During the global financial crisis, the general manager was determined that no redundancies would occur as a direct result of the crisis:

It's always been very important to me, and I know it is to [the managing director] as well, that when times get tough, we don't want people to be something that we just randomly cut away to fix our problems. So when the global financial crisis hit ... I'd decided right early on in the piece, told [the managing director] and he agreed as well, that I actually didn't want redundancy of staff to be a path that we chose to try and claw our way back again from what had been a disappointing profit result ... We place a reasonably high value on job security for people.

Leana and Van Buren (1999) point out that one way organisations can “enhance their stores of social capital” is to introduce “employment practices that promote stability among members” (p. 544). IT’s decision to take a sinking lid policy on replacing staff sent a positive message to staff about their job security. Leana and Van Buren (1999) also note that social capital can be maintained in an organisation by “treating employees as assets to be developed rather than costs to be minimized” (p. 550). IT’s decision to take a financial hit rather than lay off staff in times of poor revenue also sent a positive signal to staff.

The budgeting process reinforced the norm of valuing people through allocating funds to look after staff in material ways such as ‘shouting’ morning teas, pizzas, or a BBQ for hard work put in over seasonal peaks in work. Money was also allocated for Christmas functions and for gifts given when staff were ill, or when a staff member got married, or had a baby. The financial controller believed IT struck a good balance between returning a profit and looking after staff, as, ultimately, it was the staff that produced revenue:

I think there’s quite a good balance [between returning profit and looking after people] in terms of valuing those staff, because ultimately they are the people that are driving a lot of this [revenue] ... [the managing director] and the team are very conscious of the value of people.

A further aspect of the norm of *we value people* was teamwork. According to the general manager, the team approach to budgeting was not unique to the budgeting process, but was “a reflection and part of the team spirit that might already exist in the organisation anyway.” He added: “You’re not going to create something in the budgeting process that doesn’t already exist elsewhere.” The general manager developed a team spirit by clearly communicating expectations and listening to staff:

It’s about giving people context, reasons why you are aiming to achieve something or not, or why an outcome is important or not. So make targets clear, but then maybe spend some time talking with them about options that they might have to get there if they’re not managing to get there so far. Be willing to listen to people’s arguments, or objections or reasons why

they think something should be different to what I might be saying.

It was also important to the general manager to build relationships with those he worked with on a personal basis, particularly the senior managers he worked with in the course of the budgeting process: “I’m more proactive in actually going and seeking them out as part of my daily or weekly work and just staying in touch with what they’re doing ... And how they’re going personally” (general manager). Part of this tendency to build working relationships was taking the time to work with people to help them improve their work:

I’m the sort of person that, if anything to a fault, likes to try and work with people, especially if things need to improve in order to try and help them to get better ... Rather than somebody who stands off at a distance and tells people what needs to improve, expects them to get on with it and distances myself from people. (general manager)

Teamwork operating during the budgeting process at section and division level was seen in the way the section manager in Gamma division helped a new section manager in the division prepare her first budget. “I’ll give [the new section manager] a big hand this year as it’s her first time ... she’s probably never done budgeting” (section manager, Gamma division).

Nahapiet and Ghoshal (1998), and Subramaniam et al. (2013) recognise teamwork as a norm operating in an organisation. Indeed, Pearson et al. (2008) note that family firms often have norms that promote collaboration such as teamwork. At IT, the general manager made a point of “always trying to be as collaborative as possible” in promoting a team spirit in the budgeting process. A related norm — cooperation — is also found in the social capital literature (Edwards, 2004; Nahapiet & Ghoshal, 1998).

The evidence presented in this section has indicated that the budgeting process reinforced the norm of valuing people through management decisions regarding staffing, in actions and decisions made by managers, and in teamwork.

#### 5.4.2 Honesty and integrity.

In the opinion of the division manager for Gamma division, the norm of honesty and integrity stemmed from the managing director. In this respect, an appropriable organisation existed (an element of the structural dimension of social capital), as the personality of the managing director influences the norms operating at IT. Honesty is a social norm mentioned in the social capital literature (Subramaniam et al., 2013). Nahapiet and Ghoshal (1998) indicate a related norm – the norm of openness – as being important in a knowledge-intensive firm such as IT. Honesty and integrity were prominent features of the budgeting process, and were reinforced through that process, with 10 of the 16 interviewees making reference to the importance of honesty and integrity in guiding behaviour during the budgeting process. The financial controller believed the value of honesty and integrity came through “quite strongly in the budget process, because we very much have an open and honest discussion around budgets. They are quite frank.” He believed honesty and openness were important in the budgeting process, “So that we can make sensible decisions on the way through.” He went on to say that during the budget review meetings at division level:

We challenge people, it's quite open and people are expected to be very honest in what they say there ...We can actually ask those hard questions and expect people to honestly say “This is the background to this, and this is why we're doing it.”

According to the division manager for Gamma division, the general manager “Hates it when people are dishonest with him. He says: ‘Just say exactly how you're feeling. Say exactly where you're at. If you don't understand, say so.’ And he'll help you through that.” The division manager for Gamma division also referred to the importance of honesty and openness in all aspects of work, including budgeting. “I think there's certainly a strong tendency for everyone to be really open and honest and if you don't know something, you say so.” Huppi and Seemann (2001) believe that social capital needs to be present for people to “admit to a certain degree of vulnerability” (p. 74) and say they ‘don't know.’ They

continue, saying: “If there is too little social capital people will not dare open this door to the corporate confessional” (p. 74).

In the context of budgeting, the general manager expected staff to be honest with him, so that he could make good decisions:

I wouldn't expect anybody to be telling me any lies on the way through the budgeting process. In fact, I expect there to be an honesty and a willingness to be up front by people as they're doing what they're doing and saying “This is realistic. This isn't.” So that we can make sensible decisions on the way through.

The section manager for Beta division was of the opinion that people were honest in their budgeting. “I don't think people lie or deceive in any of the budgeting processes, I mean it's all pretty open and honest.” Her point that people were not deliberately dishonest was also brought out by the senior technologist in Alpha division who said: “No one's ever encouraged to try and be dishonest ... We're not told just to make things up to get more budget.” He went on to say: “From all my dealings, [honesty] has always been the case and that's always been encouraged and pushed and that's how it should be.” At section manager level, there was an awareness of the importance of honesty when setting the cost budget. “If you don't need the money, you don't put it in there. It's as simple as that.” (section manager B, Alpha division)

The division manager in Beta division believed managers were honest in setting their budgets, but their lack of budgeting skills hampered their endeavours:

They're just not particularly skilled, a lot of them. [The newly appointed division manager for Alpha division] has got no experience running the business. This will be his first go through budgeting ever. So he doesn't have much context to bring to the process. It'll be a learning experience for him.

Executive management were aware that some managers with budgeting responsibilities had little business training. To help overcome this problem, IT hired a management accountant in July 2012. According to the corporate services manager, “the role of the management accountant is to

work more closely with individual business units, for them to increase their business acumen, financial savviness ...”

The managing director acknowledged that some managers took a conservative estimate in terms of their expected revenue growth, inflated expenditure, and applied wishful thinking to capital expenditure requests. “People probably do try to be conservative on the revenue if they can get away with it, and, in expenditure, well, they might sort of load it up a bit.” His observation is borne out by Parker et al. (1989), who remark that if a manager’s performance is evaluated against a budget, then it is in the “manager’s own interest to ensure that the budget is set at an easier rather than a more difficult level of attainment” (p. 70). However, the managing director believed that “Generally speaking, the honesty and integrity, it’s there. I would say it’s a 95% pass mark for that.”

There was evidence that the budgeting process reinforced the norms of “open disclosure of information” (Nahapiet & Ghoshal, 1998, p. 255) through the sharing of budgetary information. Financial information was shared openly among senior managers and those with budgeting responsibilities, in line with standard practice. By doing so, IT was demonstrating transparency of budgeting information among those with budgeting responsibilities. Huppi and Seemann (2001) indicate that without a norm of transparency, management decisions can be misinterpreted. In line with common practice, managers with budgeting responsibilities at IT received monthly financial reports, as this information was necessary for them to monitor their budget in order to learn if the budget target had been achieved. The general manager also held regular meetings with his senior managers where the financial performance of the organisation was discussed. In addition, there were various meetings of managers at section and division level where financial information was on the agenda.

The approach of section managers varied as regards how much information was shared with their teams. Most section managers shared financial information with team leaders on a ‘need-to-know’ basis. By

doing so, section managers were signalling to team leaders, who were indirectly involved in budgeting, that they were part of the team. Section manager A in Alpha division stated her policy on sharing financial information with her team leaders:

If we have a funny month, I'll say, look, come on everyone [referring to the team leaders], we should sit down and have a look at this because this month looks a bit funny. But if we're just kind of tracking, kind of normally, I'd do it about quarterly.

One aspect of transparency in the sharing of financial and budgetary information that was more unusual was making limited financial information available to those not directly involved in the budgeting process. Some financial information regarding divisional performance was made available to staff in each division, although how the information was communicated differed between divisions. Limited financial information was also made available to all staff, although IT was careful about how much financial information was shared with all staff due to commercial sensitivity issues. Limited financial information such as how revenue was progressing against budget targets was also communicated to staff during the general manager's quarterly road show. These road shows were open to all staff and were held at all IT's sites.

It is evident that budgeting reinforced the organisational norm of honesty and integrity. This norm illustrates the circular relationship between the presence of norms, and the reinforcement of norms (Leana & Van Buren 1999; Putnam, 1993). Social capital, in the form of honesty and integrity, was initially present at IT, as the formalised values were a reflection of existing behaviour. As staff participated in the budgeting process, the act of working in a way that was congruous with honesty and integrity strengthened and reinforced the norm. When people acted in ways that were congruous with the norms, and made decisions in accordance with the norms, the norms were reinforced and strengthened. These reinforced norms then became the foundation for further strengthening, as others acted in ways that were in harmony with the norms.

### 5.4.3 Innovation and opportunism.

The commitment to innovation was firmly established in the company by the managing director. The division manager for Gamma division attributed the focus on innovation to the managing director's background in science:

I think one of the things [the managing director's] always instilled in us is the innovation thing. He's a chemist at heart and he actually is really supportive of us actually buying new gear and doing tests and using the latest technology. That is quite an important thing for him.

Here the influence of the managing director's personality on the value of innovation can be seen as a further instance of an appropriable organisation, one element which forms part of the structural dimension of social capital.

The budgeting process influenced the norms of innovation and opportunism through the company's commitment to fund technologists' salaries. The financial controller related that "In innovation, we actually have a whole budget for people in R&D that do this sort of work." Each division had a team of five or six technologists whose job was to refine and improve current methods, with the aim of reducing costs and providing faster test results for clients. The technologists also developed new tests, for example, testing for methamphetamine contamination, that have opened up new revenue streams. The investment of money in developing the skills of technologists has resulted in skilled staff, some of whom are world leaders in their field:

I think particularly in [Gamma] division, we are world leaders ... I've been to a lot of international conferences, and [Gamma] division's knowledge, particularly inside the [applied technology] department here, is second to none in the world. (senior technologist, Gamma division)

This "passion for technology" (section manager A, Alpha division), along with opportunism, also provided IT with a competitive advantage in the marketplace. "Opportunism, I mean that's actually what we're about, because we're a science-based organisation. That's actually how we will

win over our competitors, by actually being innovative and opportunistic” (corporate services manager). Innovation was linked to the capital expenditure budget. “So if we’re looking to innovate to go to the next step to keep ahead of the competitors, we’ll need to invest in that capex” (section manager, Gamma division). Purchasing the latest equipment also enabled IT to be opportunistic, as was explained by the senior technologist in Gamma division:

If you’ve got the right piece of kit, like one of these high-end instrument[s], then you’ve got the ability to actually take an opportunity that comes and get on to it a lot quicker than someone using a piece of gear 10 years old.

According to the division manager for Beta division, opportunism was “something [the managing director] genuinely expresses passion for.” This passion influenced the budgeting process in ensuring the funds and the flexibility were available to allow IT to be agile enough to take advantage of unbudgeted opportunities as they arose, one such example being the purchase of competing laboratories in 2010 and 2012.

According to the financial controller:

A lot of conversation with [the managing director] came up around about where we’ve budgeted in areas where we need to be able to react quickly to opportunities that have risen etc., and did we have the right resources to do so, and how do we budget for that?

The 2012 laboratories purchase resulted in section manager A in Alpha division getting three more staff and more equipment:

And opportunism ... I think this is probably why I feel that we’re a little bit flexible in our budgets ... If something comes along, they’ll just change ... We were allowed to get some more capex ... And we didn’t have to do any special budgeting or I didn’t really have to do any justifications. It was like go, do it.

A second situation in which budget flexibility and the agility to take advantage of unbudgeted opportunities were called for involved responding to urgent customer requests when these required a large amount of work to be done with a quick turnaround time such as during

the Rena disaster<sup>35</sup>. The managing director provided an example of a typical situation:

We can get a phone call and somebody says: “We’ve got a problem. We need to get 2,000 analyses done over the next fortnight.” And we’re scrambling around organising night shifts and reorganising workloads to cope. It’s exciting sort of stuff.

There was evidence that the norm of opportunism directly influenced the budgeting process, as according to the financial controller, the budget was organised to enable IT to be agile, and to respond to opportunities as they arose. As the funds set aside for opportunism were spent, the norm was reinforced.

Innovation, opportunism, and the related aspect of agility are features of the shared context dimension of social capital, as they provide a shared view, specifically a shared understanding of the business. Pearson et al. (2008) note that the shared context dimension is often unique to family firms, “because it is often deeply embedded in the family’s history” (p. 957). Innovation and opportunism are somewhat linked, as innovation is often required for the company to be opportunistic and move into a new market. The company also has to be agile to be able to take advantage of opportunities when they occur. Huppi and Seemann (2001)) note that agility is a business outcome of staff having a common view, or “the ability to ‘get things moving’ quickly” (p. 39).

Evidence indicated that having opportunities to learn and innovate was related to the value of staff enjoying their job. IT’s commitment to funding innovation by employing a team of technologists was linked to staff enjoying their work, as innovation had helped to remove some of the more routine aspects of laboratory testing. New tests gave laboratory technicians more variety in their work. The division manager for Gamma division revealed that when client service managers found new markets,

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<sup>35</sup> The Rena disaster occurred in October 2011, when the container ship Rena ran aground on the Astrolabe Reef, causing an oil spill which polluted local beaches.

got new clients on board, and technologists developed new tests, it made the job more enjoyable for those in the laboratory:

I think [finding new business and doing new work] creates a lot of enjoyment in their jobs, so they're not getting stagnant. They're not just doing the same old test day in, day out. It's "Wow! We're doing honey testing. We've never done honey testing before."

Similarly, in Beta division, the section manager pointed out that innovation helped her staff enjoy their work by removing some of the more tedious aspects of their job:

They do try and make the job enjoyable. They often work on things that are repetitive ... So they put in improvements so that the person doesn't have a boring repetitive job ... We're often including technologies that help people remove the routine operations and allow people to focus on the more interesting stuff.

This focus on innovation often led to capital expenditure in the form of the purchase of new technology, which "keeps us satisfied and happy in our jobs" (division manager, Gamma division), particularly for the laboratory staff and the technologists. The division manager for Gamma division recounted how his staff enjoyed using technology. "There's probably five million dollars of equipment sitting in [the laboratory], and people that are using these bits of equipment, they love it. They absolutely love it."

The managing director's passion for innovation and opportunism has caused some tension between him and the general manager. The general manager took a harder line on unbudgeted capital expenditure requests, requiring the manager involved to find the funds from his or her existing budget. The managing director continues the story:

And it keeps our budget expectations good, but it's not necessarily something I really am comfortable with, because if those things are genuinely in the budget, those other items are genuinely in the budget for a good reason, I'd be more inclined to say, "It's an additional \$150,000 expenditure", but that's just my nature and probably a possible weakness. I'm probably a bit soft in terms of "Well, if we need it, we need it."

#### 5.4.4 Family culture.

The family culture evident at IT was another social norm operating at IT. The managing director believed the family culture stemmed from the involvement of himself and his wife in the company. "The fact that I'm here, and my wife and I own 75% [sic] of the business, that puts a certain atmosphere in the place too. There's not some alien owner out there that we have to satisfy." According to the division manager for Gamma division, the managing director is a "key driver in the culture that happens around here." He viewed the family culture as being related to the personality of the managing director:

[The managing director] is like your Dad. He's softly spoken, makes you relax, and just wants to talk with you, and he has that feeling on people, and I think it comes through in how everyone works around here ... I think his whole demeanour has just created a culture around here, where everyone is a family.

In this context, the managing director's influence on IT's culture was a further example of an appropriable organisation, and is part of the structural dimension of social capital.

The family culture was furthered by the outgoing nature of the managing director's wife. According to the section manager in Gamma division, she visited his division, which was located away from the main building, once a week. "I think it's Thursday morning, she'll come round on her way through to [the main building], and she knows everybody. She'll have a quick chat with everybody." She also attended the after-work drinks which were held monthly. However, the general manager believed some of the newer employees, who do not have a relationship with the managing director and his wife, viewed IT simply as a workplace.

Wilson and Chua (1993) suggest budgets often reflect the values, beliefs and social norms occurring in an organisation. Similarly, the budgeting process reflected aspects of the family culture. The managing director believed that he and his wife had "encouraged openness and friendliness and having a laugh with our staff ... and just enjoying each other's company." The managing director believed it was important for staff to

enjoy their work. He stated that although budgeting was often a serious matter, particularly at times when revenue was down, managers were still able to laugh:

We'll crack jokes almost at inappropriate times. Somebody will crack a joke, and we all laugh, even though it's not a laughing matter. [They] might take the mickey at me not hearing something, or [the managing director] and his little pet projects, and we enjoy a joke.

The interviews provided two examples that illustrated how having a laugh was demonstrated in the budgeting process. The financial controller believed enjoying his job showed up in the approach taken to budget review meetings. "The meetings themselves are quite informal ... so we do have a good laugh and we do enjoy, I believe, what we do, and it comes through that in that process." Section manager B in Alpha division recounted the story of a shared laugh that occurred when he made a genuine error, and included an office chair in the capital expenditure budget:

We have a rule that any item over \$500 has to be capexed. So, me being a diligent geek, I put in an office chair which will be about \$500 into that capex. I have received so much hassle about that ... "You don't need to capex a chair, mate, what are you doing?" But we're leaving it in there. Even [the managing director's] like: "Right. I want to see what happens with that chair across the year."

Carmeli, Ben-Hador, Waldman, and Rupp (2009) found that when "employees experience high-quality relationships" with their work colleagues, they are more likely to be "highly engaged in work tasks, thus improving their job performance" (p. 1558). More simply, when people enjoy their job and those they work with, they are likely to be more productive.

Interviewees spoke of a friendly, relaxed workplace, where people were considerate, respected each other, were supportive, open, friendly, and helpful, and where doors were open. The financial controller had worked at IT for 18 months at the time of his interview in March 2013. He made the following observations about the culture when he started work at IT. "I

noticed it was very friendly. People are friendly, and helpful, and it was pretty informal, in a sense that, open doors. Everybody's open doors. Open honesty came through quite a lot." Likewise, the senior technologist in Alpha division characterised working relationships in the following way. "I think the management are just friendly. They create a good atmosphere. It's always friendly. Open-door kind of policies. People that work here are good to work around and everyone respects your opinion." The corporate services manager noted that "People are very relaxed about having conversations. People tend to see most people as approachable and not a big divide between senior management and staff on the bench."

However, interviewees did acknowledge there were some personality clashes and the occasional instance of tension between people. "I guess it's like any company. There's some people that don't get on with other people and that can be awkward at times, but for the most part, everyone gets on and works together" (section manager, Beta division). It appeared that differences between people did not impact on staff doing what is best for IT:

But what I like about [IT] is that even if there's a personality difference or a difference of opinion, I think most people want to do what's best for the company. I think in that way the working relationships are good because people usually will have a common goal, even though there might be a little bit of friction. (section manager A, Alpha division)

Whilst these observations of the culture at IT were made in a general context, they were also evident in the budgeting process, as interviewees believed there was no change in the nature of working relationships during the budgeting process.

More specifically, the budgeting process reinforced the norm of a family culture through open, honest, friendly, cooperative working relationships. People were encouraged to speak up if they did not understand something and the views of those involved in the budgeting process were sought:

People are quite friendly and comfortable with each other ... don't feel afraid to put ideas out there ... [their ideas] might not be accepted or agreed with, but it's pretty open, so people are

allowed to have their say, so I think that's really strong, and certainly contributes to where decisions get made around budget. (client service manager, Beta division)

The budgeting process reinforced the family culture through the informal, relaxed way the budgeting process was carried out. It appeared this informality stemmed from the managing director. According to the division manager for Gamma division, “[The managing director] is a very relaxed guy himself in lots of ways and he doesn't like formality. He's not comfortable with it.” Again, the influence of the managing director's informal personality on the budgeting process provides another instance of an appropriable organisation.

Whilst the budgeting process itself was a formal, structured process, the interactions between people during the process were largely informal. The division manager for Alpha division summed up the sentiments of several interviewees on the nature of working relationships in the budgeting process stating: “We have a softer culture I think, with the way that we interact with each other. We're fairly egalitarian in many ways and enjoy a laugh, so the communication during budgeting, a lot of it's fairly informal.” Pearson et al. (2008) note that egalitarianism is a norm often found in family firms.

One senior manager believed the absence of budget-related bonuses (for staff other than the general manager) resulted in a more relaxed process. “I believe that because there is no personal financial bonus for staff associated with the budget, it does make it a bit more relaxed” (division manager, Gamma division). The division manager's comment runs counter to agency theory, which assumes agents are self-centred (Ghoshal, 2005), individualistic, and opportunistic (Subramaniam, 2006) and act in their own self-interest (Eisenhardt, 1989a). Accordingly, agency theory argues incentives are necessary to help align the interests of the agent with those of the principal (Cuevas-Rodriguez, Gomez-Mejia & Wiseman 2012; Jensen & Meckling, 1976).

An example of the informality in working relationships in the context of budgeting was illustrated in the approach the division manager for Gamma

division took to running his monthly division meetings. At one particular meeting, the general manager was scheduled to present one of his road shows, which included talking about the financial situation of the company. The division manager had a policy of requiring those who turn up late to sing a song or do a dance. On this occasion, the general manager had forgotten about the meeting, and when he did arrive, he had to sing a song before the meeting began, with the division manager singing along with him.

The budgeting process reinforced the family culture through a reluctance to make staff redundant, and in “People being accepting of the greater good, the family, what’s right for the whole company as opposed to my little domain” (managing director). The managing director gave an example of how the ‘caring culture’ has influenced IT’s finances:

We had a case a few years ago where a woman’s husband died of cancer. And my wife said to her: “Just come back when you want to.”... And I think she was away 5 or 7 weeks or something. She had some sick leave, and there’s bereavement leave, but that wasn’t going to cover it all. The salary kept going into her bank account.

The evidence presented so far indicates the budgeting process reinforced relational social capital, specifically the norm of a family culture, through supportive working relationships, and the informal, relaxed nature of the budgeting process. A circular process also exists similar to that seen with the value of honesty and integrity. Supportive relationships are already present, and are reinforced as managers involved in budgeting interact with each other in a supportive way. Likewise, the managing director’s informal personality influenced the budgeting process, and informality was reinforced as managers involved in the budgeting process interacted with each other in an informal manner.

However, there was some evidence of a ‘clash of cultures’ at IT, due to the managing director and the general manager’s having differing management styles:

The clash of culture will be the family-orientated, informal, the sort of laissez-faire, but I'm not saying that in a critical sense, culture, versus a culture that somebody actually might want because they want to reach an end-point, and they put in really strict milestones. (corporate services manager)

Chenhall et al. (2010, 2012) reported a similar situation at an Australian nonprofit organisation. In a similar way to IT, the introduction of budgets and performance measurements ran contrary to the prevailing customs. However, the introduction was not successful and “had potential to seriously erode internal bonding social capital” (Chenhall et al., 2010, p. 749). There was no evidence that the more rigorous approach to budgeting introduced at IT was causing similar problems, a result that could be due to managers' at IT already being familiar with a commercial operating environment, and the absence of individual financial incentives.

The division manager for Beta division believed the managing director and the general manager were “diametrically opposed in the way they see the world.” The division manager for Gamma division described the two differing approaches as the “yin” and the “yang.” The managing director took a more relaxed approach to budgeting, whereas the general manager had a more structured, rigorous approach, actively monitoring the budget, and setting regular, formal meetings with his direct reports. The general manager's business skills resulted in his winning the Business Leader of the Year award from the business school of the local university.

The clash of cultures was an example of the budgeting process influencing social capital in the organisation through a change in IT's culture. In a budgeting context, it is seen in the way the managing director approached setting budget-related KPIs and a bonus for the general manager. Whereas senior client service managers, section managers and division managers all had formal, written budget-related KPIs, the general manager had no formal KPIs. While the general manager reported to the managing director, the managing director had not set any budget-related KPIs for him, so the general manager was uncertain how his performance was evaluated. The general manager appeared to be frustrated by the loose way in which his KPIs are set. “The [managing director's] not a very

good manager and so actually if you were to say to me: “What are my KPIs?” I would say “I don’t know”, because he never sets any.” The general manager had adopted IT’s meeting its budgeted EBIT of 15% as his budget-related KPI. The managing director had toyed with the notion of introducing bonuses, but had introduced a budget-related bonus only for the general manager. However, the general manager was frustrated with the lack of rigour around how the managing director set his bonus:

[The managing director] doesn’t actually seem to like particularly to try and put many dimensions around [setting bonuses]. He kind of likes to be able to put his finger in the air at the end of the year and say: “Here’s how much I think that you should get.” (general manager)

The managing director had considered introducing a bonus system for meeting budget targets, but was concerned it would change the budgeting culture and negatively influence the family culture and the cooperative spirit existing among those involved in budgeting at IT:

They put off buying that machine, or put off doing a service and maintenance on a machine and minimise the cost that’ll just get across, they’ll get their bonus. And all of a sudden, getting their bonus becomes their driver, their sole driver. We would rather they had driven on do[ing] the right things for the company. (managing director)

The managing director’s concerns lend some weight to Strong and Waterson (1987) who note that linking remuneration to accounting earnings may result in a short-term focus, to the detriment of long-term concerns. Likewise, Wilson and Chua (1993) point out that a budget target can become an end in itself, resulting in undesirable behaviour and managers’ ignoring other issues that were deemed to be important previously.

Aside from the general manager, the managing director did pay a one-off bonus to a small number of staff who had gone ‘the extra mile’ during the year:

People who have really stood out and have just gone the extra mile, we’ve just quietly tapped them on the shoulder and given them a one-off bonus, for good work done in that year ... It’s

acknowledging what we want to see in our people, and acknowledging commitment way above the norm.

Staff members who were also shareholders benefitted if the company did well financially through an increase in the price of their shares and through increased dividend payments.

Section 5.4 has presented evidence on how the budgeting process has reinforced the *we value people* norm, the norms of honesty and integrity, innovation, opportunism, and the norm of a family culture. The norms of valuing people, honesty and integrity, together with the norms of a family culture and *we enjoy our work* laid a foundation for managers involved in the budgeting process to work together as a team, and to work cooperatively towards the commonly understood goal. In the next section, budgeting and the commonly understood goal, are examined.

## **5.5 Budgeting and the Common Goal**

According to the managing director, IT sought to achieve two goals. He described the goals as follows: “To continue to grow, to continue to be profitable, and to continue to be an excellent place to work for our staff, and to have some fun at work.” The goals of growth and profitability were financial goals, while the goal of looking after staff was a social goal. The financial and social goals provided a shared view of the direction for IT, and thus represent part of the shared context dimension of social capital. Huppi and Seemann (2001) note that a shared context includes a shared understanding of the business, and a shared strategic agenda, both of which are linked to the commonly understood goal.

In the opinion of the managing director, the most important goal was to be profitable, “Because everything else hangs off that.” He believed that without profitability, the company was restricted in what it could do in terms of looking after staff. “If we’re not making a profit, we ain’t here ... And 350 people are out of a job, so that’s a social responsibility we feel.” The general manager agreed with the focus on profitability, saying: “being profitable is critical.” He also commented that IT had a responsibility to shareholders to provide them with a return on their investment. The

managing director pointed out that for him and his wife, “It [is] not about making more and more and more money.” He preferred that his company found a balance between running at a profit, and looking after staff:

I'd rather have a company that wasn't making so good a profits [sic], but we were all really enjoying the challenges of what we're doing, and enjoy each other's company, than a company that was really finely tuned, making twice as much profit, but people were stressed and unhappy.

The common goal of looking after staff was a 'softer' goal, and was secondary to the shared financial goal. Managers referred to the tension between the need to remain profitable and the desire to look after staff. The general manager noted: “We are not a company that absolutely pursues profit this year at the expense of being good corporate citizens, trying to look after the people who work for us.” Section manager A in Alpha division took a similar view, saying: “[IT] wants to make a profit as well, but they don't treat the people badly just to make a profit.” Likewise, the financial controller and the senior technologist in Gamma division were of the opinion that IT maintained a good balance between returning a profit and looking after its staff. Two staff members related how returning a good profit would be linked to staff benefitting at work. The division manager for Alpha division was of the opinion that “If we can become more profitable, then we can do a better job of looking after our people financially.” Likewise, the corporate services manager held a similar view, saying: “So if we've done well financially, then staff will notice that has actually passed on to them as well, as in perhaps more than the norm.” The evidence presented indicates that whilst profitability was vital to the existence of IT, it was not an end in itself. Rather, profitability was balanced with looking after staff. The shared goal of looking after staff was reflected in IT's values of *we value people*, and *we enjoy our work*, as well as in the norm of a family culture. How the budgeting process influences these values and norms was previously examined in sections 5.4.1 and 5.4.4.

The budgeting process was structured in a way that formalised and defined the socially created, shared financial goal of returning a profit.

Budgeting began with the strategic plan, which encapsulated the long-term view for the direction of IT. The strategic plan set targets, including a gross margin target, a sales growth target, and an EBIT margin target, which were used at IT as a measure of profitability. The strategic plan, with its budget targets, formed the basis of the business plan for each division. The final budget for each division, based on the business plan, incorporated the cost and salary budgets for each section in the division, along with the revenue budget and the capital expenditure budget. Each division's budget had a gross margin, an EBIT margin, and a revenue target associated with it. Section managers had a gross margin KPI to attain, and senior client service managers had a revenue-related KPI to achieve. Division managers had KPIs relating to achieving their division's gross margin, EBIT margin, and revenue target. Division managers met with the general manager fortnightly to review their attainment of their division's financial goals. Division managers also met weekly with the general manager to have an "informal catch up" (division manager, Beta division). Information on how revenue was tracking against budget was available on a daily basis. The monthly financial reports were also used to monitor progress against the budget. They contained information about actual income and expenditure against budgeted amounts, profitability down to section level, and financial ratios. The reforecasting of the budget to ascertain, as accurately as possible, the year-end profit, based on actual figures to date, was also used as a tool to determine if the budgeted profit would be achieved.

If revenue was lower than anticipated, section managers were expected to reduce consumables use in line with the lower revenue. Senior managers were aware of the problems associated with forecasting revenue. Section manager B in Alpha division commented on the stance taken by management to lower than expected revenue:

It's very difficult to get a good understanding in this business of where our sales are coming from ... just so long as if we're not meeting budget, we take prudent measures so that if our sales are behind, our costs are brought back appropriately as well, then that's fine.

Whilst IT had set a target of 15% EBIT as a measure of profitability, it seldom achieved the target. According to the managing director:

We've always been a bit relaxed about how good the profit is, and we've set ourselves a target of 15% EBIT, and we used to do that in the early days, no sweat. And then we went through a period of probably 10 years, or more, where we never made it. We'd sometimes get to 13.5 [% EBIT], 12 [% EBIT], and once or twice just around the 9 [% EBIT] or 10 [% EBIT].

The managing director explained that setting the EBIT target at 15%, even though it was not often attained, provided IT with a buffer should the company have a poor year. After a very low EBIT, i.e., the year the global recession hit IT in the financial year ending 31 January 2011, management focused on returning to profitability, and in the year ending 31 January 2013 achieved a 15% EBIT. The next section examines how the budgeting process encouraged managers to work together with the aim of achieving budget targets.

## **5.6 Budgeting can Bring People Together to Work Cooperatively towards the Common Goal**

Evidence from the interviews indicated that when the general manager joined IT in 2007, he introduced a focus on viewing the organisation as a whole entity. According to the senior client service manager in Alpha division:

When [the new general manager] came along, there's been a much more holistic view of the business, in terms of all trying to achieve the main goals and there's no point in one division achieving their goals if it comes at a cost of meeting the overall goals of the business. So I think there's just that clarity around where we're going as a whole business, rather than just individual divisions.

This change has helped overcome an inclination towards business silos at divisional level. The general manager's approach has been to cultivate a sense that those involved in the budgeting process are all working together and "on the same boat" (division manager, Gamma division) to help the company achieve its budget for the year, and without any unhealthy competition between divisions. The sense of all managers'

cooperating to meet financial goals was also referred to by the managing director:

Each of you have your own areas of responsibility, but you don't come here to bat for those. You come here to bat collectively for the good of the overall company, even if it means your particular interests are going to take a hit.

There was evidence the general manager's approach had been adopted by managers, with the section manager in Beta division summing up the sentiments of four other managers on the subject, saying: "I think everything we do when we do our own budgets is to do the best by the company ... It's all done for the purpose of succeeding as a company."

The senior technologist in Alpha division related how this was his experience with the allocation of capital expenditure money. "Well, at the end of the day, everyone wants what's best for the company ... that's how everyone has to operate and the division managers included."

The section manager in Beta division related how it was accepted among managers, as part of the budgeting culture, that some parts of the company were not profitable and that the more profitable areas were subsidising the less profitable areas:

There's definitely areas of the company that lose money every year, but they gain clients for another area, and by doing that work we're getting more work in a different area, and I think people are pretty accepting of sometimes ... the profits they make go to different areas to keep them afloat or to keep them going. That just happens. I guess it's part of the culture.

In this respect, managers were able to do what was best for the company, despite knowing that their area's profits were helping to subsidise other areas. This view was shared by section manager B in Alpha division:

There's some times we're asked to make compromises to pop out the magic number at the end that's asked of us, and we make those compromises where we can ... that's just what you do, to help each other out.

The budgeting process influenced social capital at IT through the relational dimension norm (or expectation) that individuals and divisions would work cooperatively towards the commonly understood financial goal. Indeed,

cooperation is viewed as a norm by Edwards (2004), and Nahapiet and Ghoshal (1998). There was also a culture (or norm) of accepting that the more profitable areas of the business would make money to cover for areas that were not financially viable.

Although the managing director had considered the idea of introducing budget-related bonuses for staff when they met their budget-related KPIs, he was reluctant to do so, as he was aware that the culture of working together as a team to do what was best for the organisation could change if budget-related bonuses were introduced. “But not having that individual bonus system there helps nurture that idea of what’s in the greater good, really, for the business.”

There was evidence of some friendly competition between divisions regarding profitability. The senior client service manager in Gamma division described the friendly banter between Beta and Gamma divisions regarding the profit results:

But of course in fact, we say, “Oh look, we’re doing a bit better than the other guy [Beta division]!” And I think in many ways, that’s sort of a healthy thing. You like to look at your own figures that are highlighted in green, and if the other guys are in red, you don’t cheer, do you? You actually want them to be in green, but just a bit below you.<sup>36</sup>

Section manager B in Alpha division remarked that any competition over meeting the budget resembled light-hearted banter:

The “I’ve made my numbers and you haven’t”, I don’t think that really comes up. It’s more of a fun thing rather than a professional sort of jealousy type of thing, or oneupmanship.

By putting what is best for the company above their own needs, managers were identifying with IT, and were displaying what Leana and Van Buren (1999) term associability, as they were willing to work towards collective budgeting goals rather than pursue individual budgeting goals.

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<sup>36</sup> Beta and Gamma divisions each return around 25% of IT’s profit, with the competition being over which of the two divisions returns the higher profit.

While most of the managers involved in the budgeting process were working together to do what was best for IT, two interviewees mentioned instances where another division was attempting to allocate costs to their area. The division manager in Beta division suspected that a manager in Delta division was trying to 'dump' costs into his business:

I'm getting lots of costs dumped into my business as opposed to someone else's and [possibly] they're doing it deliberately to make some other part of their business look good. And that doesn't make me feel particularly pleased with them, but it might be a mistake as well.

The division manager approached the financial controller, who agreed the costs were wrongly allocated, and investigated the matter further.

Similarly, section manager A in Alpha division found another division manager was coding costs to one of her teams. This miscoding occurred while she was on holiday. "You just go, oh okay. Like I'll follow up on it, but I don't really worry about it. You just kind of follow up on him, but you think, oh, was that really cool?" She did not believe the miscoding was done deliberately to take advantage of her absence. These two incidents appeared to be exceptions to the rule of managers' doing what was in the best interest of the company.

The process of working together to achieve the commonly understood goal was not without some tension around setting budget targets. While the general manager approached the budgeting process in "good faith," he had a view on what he wanted from the budget in terms of revenue and profit. His view was based on on-going discussions with the board throughout the year regarding what they were likely to find acceptable in the budget for the upcoming financial year. "I would not be doing my job very well if I hadn't anticipated what it was that the board were wanting, and made sure that something acceptable to them was going to be presented to them" (general manager). He felt the "weight of importance" associated with presenting an acceptable budget, because if the budget was not accepted by the board, considerable work would be needed to produce an acceptable budget. He aimed to present a budget that was "A good balance between being achievable and giving us a bit of a stretch to

go after as well.” He viewed the board’s acceptance of his budget as a “vote of confidence” in him and his staff. In this context, the general manager and the board were working as a team, with the board giving guidance to the general manager as to what an acceptable budget would look like.

Evidence from the interviews indicated there was tension between the general manager and some division managers if the general manager felt their budget did not meet his expectations. The division manager for Beta division described the general manager’s behaviour during the budget review meetings as “confrontational,” believing that any tension in these meetings revolved around how division managers reacted to the general manager’s desired changes to their budget:

If [the general manager] thinks he’s going to be correcting a whole bunch of things that he’s not happy with, then the manager might humbly accept those corrections, or [the manager] may fight for them and they may anticipate those challenges, and so that will determine the tone of the meeting.  
(division manager, Beta division)

The general manager acknowledged that he would need to challenge managers over their budgets if they did not align with his expectations. “If somebody’s coming through with something that is not really up to scratch, well you need to confront that reality with them and sometimes that can produce a little bit of a testy environment.” He also accepted that at budgeting time there was often a tendency to view him as an enemy, “Because I’m the guy that’s in there saying ‘Well here’s the sort of numbers that we’d like to see coming out of this.’”

Whilst there was some tension between managers around the setting of budget targets, evidence from the interviews indicated that the general manager achieved his goal using a low-key, friendly approach:

At the end of the day, probably everybody is well aware of the fact that if I say: “We need to have this thing”, then they know that they’re going to need to go off and try to make it happen. But actually we don’t interact with each other like that. There tends to be more of an enquiring, questioning, conversational kind of an approach to it, with the intention, hopefully, of people choosing to do what’s needed, without actually

needing to have instruction given to them saying: “You must do this. You must do that.”

Wilson and Chua (1993) suggest that budgeting is a process involving “bargain[ing] for scarce resources” (p. 241). They add that, as a result of the bargaining process, those individuals having power are revealed. From the evidence obtained in the interviews, it appears the final budget largely represented the wishes of the general manager, and ultimately, the board. In this respect, those with the most influence over the budgeting process at IT were those involved in the formal power networks.

There was some tension around division managers’ negotiating a budget which they were comfortable with, and which they believed they could deliver. The division manager for Alpha division spoke of the tension between wanting to deliver an acceptable budget, and knowing that he would be held accountable to that budget. “The thing we all have to consciously manage is the short-term pressure and desire to deliver a favourable budget to the board ... we can be seduced by that.” He considered a realistic budget could be arrived at through discussion. Lowe and Shaw (1968) also note that the desire to please superiors was a tension that managers involved in budgeting faced. All three division managers either referred to or alluded to their responsibility to be accountable, or to own, or identify with their divisional budget. The division manager for Alpha division was aware there was a tension between himself and the general manager regarding his owning of his divisional budget:

It’s my responsibility to say to [the general manager] “Look I’m really uncomfortable with this. I’m afraid I can’t commit to that.”... I mean [the general manager’s] a smart guy. He knows if I haven’t bought into the budget, then I’m not going to own it.

The budgeting literature indicates that when managers participate in setting their budget targets, they are more likely to accept and internalise budget standards, and are likely to be more motivated to achieve them (Hofstede, 1968; Parker et al., 1989). The general manager was

cognisant of the need for the budget to motivate managers, and to balance achievability with “a bit of a stretch.”

There was a shared view among managers that revenue could be difficult to forecast, a view which led to a tendency to forecast revenue conservatively. Indeed, a shared view is included in the shared context dimension of social capital. In this context, the shared view about revenue being difficult to forecast formed a shared understanding of the business and the marketplace (Huppi & Seemann, 2001). Difficulties arose as external factors such as the weather were hard to predict. Moreover, unexpected events such as the Rena disaster or the PSA outbreak<sup>37</sup>, which brought in unbudgeted revenue, could not be foreseen:

It's not like a normal sales business. You can't predict for a Rena, or streptomycin testing. That wasn't even in the budget originally. All of a sudden Zespri ...10,000 samples turn up ... A lot of our stuff depends on the weather. If it's a really bad winter, or crops fail, then the testing goes down accordingly. (section manager, Gamma division)

Section manager B in Alpha division referred to forecasting sales as being akin to witchcraft, as you needed a crystal ball to predict the future. Similarly, the senior client service manager in Alpha division referred to forecasting sales as “a bit of black magic and witchcraft.” The division manager for Alpha division explained why he erred toward conservatism:

Personally, I try and set conservative budgets to ... err towards the, not the worst case, but without a crystal ball, you don't know where these things are going, so you need to make some guesses and I tend to err on the conservative side both with revenue and cost.

By being conservative on revenue forecasts, managers were attempting to introduce budgetary slack into their budget. Slack can be used to buffer against uncertainty (Davila & Wouters, 2005; Hilton, 2011; Onsi, 1973), and unpredictability (Dunk & Perera, 1997). It appeared from the evidence in the interviews that slack was introduced in the revenue budget to set

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<sup>37</sup> PSA is a bacterial disease affecting kiwifruit vines. It was first detected in New Zealand in November 2010.

easily attainable targets because of the uncertainty and unpredictability around forecasting revenue.

However, despite this natural inclination towards conservatism, there was an indication some managers adopted the 10% revenue growth figure indicated by the board, as: “Well, people say, for the revenue budget, ‘We’ll just put what [the general manager] wants anyway, because he’ll make us do that anyway.’ I mean that’s what I was told” (division manager, Beta division). The division manager did acknowledge, however, that the general manager was “reasonable” and that “He’s in touch with the business and has a pretty good feel for where it’s going.”

There were indications of some disagreement over reducing the cost budget at section level. Four section managers commented on the need to stand their ground and defend their budget, or to fight for their money if they needed to. “If you need the money, you fight for it if it’s trying to be taken away from you” (section manager B, Alpha division). Often discussions regarding cutting costs were resolved by discussion and consensus. If no agreement could be reached, then the division manager’s decision would rule. Prendergast (1997) described a department manager who stated there was little room for slack in the budget as claiming “costs have to be realistic for the volume” (p. 45). This was also the case at section manager level, as the section cost budget was linked to revenue.

This section has examined how budgeting can bring people together to work cooperatively towards a commonly understood goal. In this respect, managers with budgeting responsibilities were demonstrating the norm of teamwork. However, some tension was evident regarding the setting of budget targets. The section that follows examines how the budgeting process fosters social interaction and relationship building in formal and informal networks.

## **5.7 Budgeting Encourages Social Interaction and Fosters Relationships**

The structure of the budgeting process at IT gave rise to numerous occasions for social interaction and relationship building, both formal and informal, at various levels throughout the organisation. The budgeting process at IT was initially top-down, starting with the development of the strategic plan which was discussed at senior management, executive management, and board level throughout the year. The strategic plan was used to formulate a division's business plan for the upcoming financial year. Once the strategic and business plans were set, the general manager met with the division managers to outline the strategic and business plans, so they could build a business plan for their division that was aligned with the corporate business plan.

Once a divisional business plan had been developed, the process of building a divisional budget that aligned with the business plan began. The division manager worked first with the senior client service manager to develop the revenue budget, then with the section manager(s) to develop the cost budget,<sup>38</sup> and finally with the senior technologist to develop the capital expenditure budget. The preparation of the revenue budget for each division by the senior client service manager required consultation with other client services team members. Likewise, section managers consulted with their team leaders when preparing their section's salary budget and cost budget. The senior technologist in each division typically liaised with other technologists, section managers and their team leaders, client service managers, and the division manager when preparing the capital expenditure budget. The consultation seen in the preparation of the revenue, cost, salary, and capital expenditure budgets for each division illustrates the importance of the norm of teamwork.

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<sup>38</sup> The cost budget is the expenditure budget for the section. It does not include the fixed costs of salaries and wages or depreciation. These two items are calculated separately.

After the revenue, cost, and capital expenditure budgets had been set, a series of up to three formal review meetings were held to ensure each division's budget met the sales growth, gross margin, and other profit targets set by the board. Each division had a separate set of meetings. The general manager, the corporate services manager, the financial controller, and, occasionally, the managing director, along with the people involved in the budgeting process in each division, the division manager, the section manager(s), the senior client service manager, and the senior technologist were usually present at the first meeting. After each review meeting, changes often needed to be made to the budget.

Once the review meetings for each division had taken place, and changes made, IT was able to produce a company budget that not only met the margins required by the board but also was aligned with the strategic direction of the company. The general manager presented the final budget to the board in the presence of the division managers, the financial controller, and the rest of the executive management team. Once accepted by the board, the budget was formally approved and signed off.

An illustration of how these formal meetings influenced social capital among those involved in the budgeting process can be seen in the role that the senior management team meetings played in helping the new financial controller to get to know other senior managers:<sup>39</sup>

[The financial controller] gets to know the business/financial acumen of the divisional and business unit managers, and vice versa. The managers also need to know that he's got expert skills or specialist skills, and when he communicates information to them, they'll think: "Okay, I feel confident in this person." (corporate services manager)

As can be seen from the preceding discussion, much of the social interaction involved in the budgeting process occurred through formal network ties and meetings — arising as a function of job title — which

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<sup>39</sup> At the time of the interview with the corporate services manager, the financial controller had been working for IT for 10 months.

necessitated interaction between managers. Knoke (2009) also note that social capital relationships are often laid out in formal job descriptions which define supervisory and information sharing responsibilities.

There was evidence of other formal networks which contributed to building and maintaining social capital amongst groups of people operating at IT; most of these had an indirect or incidental influence on budgeting. The two-monthly meeting of section managers over breakfast and the monthly community of practice meeting of all technologists were formal networks with an indirect influence on budgeting. Whilst budgeting was not specifically addressed at the technologists' monthly meeting, as it was more akin to a 'community of practice' (Lave & Wenger, 1991), the senior technologist in Gamma division considered that the meetings helped him indirectly when he was considering items of capital expenditure "Because you hear instances and experiences from other people who may be using the same manufacturer's gear, or new manufacturer's gear, or how they've done something a bit smarter."

It was apparent from the interviews that the development of informal network ties was aided by an active social club, and by the practice of some sections and divisions holding their own social events. These informal network ties were fostered by the organisation. The social club organised after-work drinks on a Friday night once a month, as well as regular social events throughout the year. It also organised an end-of-year Christmas function for staff, as well as a family BBQ, which included a visit from Santa for the children.

The section manager in Beta division commented on how the social gatherings helped her, indirectly, in her job: "They're often more receptive to help and to give you the information you need, if they know who you are and what you're all about." This finding is consistent with Bolino et al. (2002), who note that social participation increases "the likelihood of their [staff] meeting colleagues working in other departments – with whom they might not have made contact otherwise" (p. 513).

Cohen and Prusak (2001) argue that physical spaces (In this thesis these are included in the structural dimension of social capital.) for staff to meet socially helped to build and maintain social capital in an organisation. In addition to the staff room in the main building, there were also places at Gamma division where staff could socialise. However, at Gamma division, there was no central social venue, similar to the staff room in the main building.

This section has shown how the budgeting process encouraged social interaction, the development of working relationships, and bonding social capital (Putnam, 2000) through the various budget-related formal and informal meetings. The budgeting process fostered, nurtured, and lubricated working relationships by bringing managers together on a regular basis. However, it is also possible that good working relationships among managers made the formal meetings run smoothly. Any influence of social events and informal network ties on the budgeting process was indirect. This interaction and relationship building occurring between managers led to managers' working together towards the commonly understood goal, in this case, profitability, and by implication, meeting the budget. At IT, this process occurred largely through budget-related meetings. The next section summarises chapter five.

## **5.8 Summary**

In this chapter, the findings from IT, a science-based organisation, are presented. IT has a set of five organisational values (valuing people, enjoying work, honesty and integrity, innovation, and opportunism) which, along with its family culture, have become social norms in the organisation. The budgeting process reinforced the norm of valuing people through the company's staffing policies. Valuing staff was also evident in the fact that money was allocated for looking after staff in material ways. The budgeting process also reinforced the norm of teamwork, and the norm of honesty. A related norm, i.e., open disclosure of information, was most pronounced among senior managers. Limited financial information was made available to all staff. The commitment to the norms of innovation and opportunism stemmed from the managing

director's background in science, and was necessary for the company to remain competitive. While the budgeting process reinforced these two norms, there was also evidence the norm of opportunism directly influenced the budgeting process.

The family culture was another norm that was reinforced through the budgeting process. The family culture was reflected in a friendly, relaxed, supportive work environment, and in the informal nature of the budgeting process. However, there was evidence of a clash of cultures due to the differing management styles of the managing director and the general manager. The social norms evident at IT laid a foundation for teamwork, as managers worked together towards the commonly understood goal. IT had two commonly understood goals: a financial goal, and a social goal. The common financial goal of growth and profitability was the primary goal. It was first necessary to achieve the financial goal in order to meet the secondary goal of looking after staff. The budgeting process was structured in a way that both formalised and defined the commonly understood financial goal.

Under the leadership of the general manager, managers focused on seeing the organisation as a whole entity, a strategy that effectively overcame an inclination to create business silos at divisional level. Managers worked together during the budgeting process with the aim of achieving the common financial goal and making decisions on what was best for IT. However, some tension around setting budget targets, particularly at division manager level, was evident. There was also a shared view that revenue could be difficult to forecast, resulting in a tendency towards conservatism, and budgetary slack.

The structure of the budgeting process resulted in various meetings between those involved in the process. These meetings gave rise to social interaction and fostered the building of relationships, most of which occurred during formal budget-related meetings and cemented formal network ties. The social interaction and relationship building occurring as

a result of the budgeting process arose as managers worked cooperatively towards the commonly understood goal. IT also had an active social club which organised regular social gatherings. However, these social gatherings were found to have only an indirect effect on the budgeting process. In the next chapter, chapter six, presents the findings from the third case study organisation, Fun and Games, a branch of a public company called Fun Time Limited.

## 6. Fun Time Limited<sup>40</sup>

This chapter presents the findings from the third case study organisation, Fun Time Limited (FTL). FTL is a public company operating in the entertainment sector; it is listed on both the New Zealand and Australian Stock Exchanges. FTL aims to provide shareholders with above average growth from its five sites in New Zealand and Australia. The company's head office is in Auckland, New Zealand. This study focuses on one of FTL's New Zealand sites. The site studied will be referred to as Fun and Games (F&G).

In addition to its core business, F&G has two a la carte restaurants, three bars, a 10 pin bowling alley; it also caters for private functions. For the financial year from 1 July 2012 to 30 June 2013, the F&G site had revenue of \$52 million. The majority (80%) of the revenue was generated by the core business, with the food and beverage outlets generating around 16%, and the bowling alley making up the remaining 4% of revenue.

At the time of the interviews in 2012/2013, the F&G site had been operating for 10 years and had around 380 employees. One hundred and eighty were full-time, with the remainder being part-time or casual. F&G hosts and supports charity dinners and events, and funds are donated to community organisations through a community trust. In 2013, the community trust donated around \$650,000 to 156 community groups. In 2010, F&G won the Hospitality Association of New Zealand Award for excellence in host responsibility. It was also a finalist in a local Business Excellence Award run by a bank in 2010 and 2011. In 2011, it was the winner of a City Central Business Award in the city it operates in. The general manager was named the Business Leader of the Year by the business school at the local university.

A senior management team of nine senior managers runs F&G. There is also a larger management team of 19, which is made up of the nine senior

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<sup>40</sup> Fun Time Limited is a pseudonym used to protect the identity of the organisation.

managers and other department heads. F&G has 19 departments. The management team and the senior management team meet weekly. Figure 6.1 displays the lines of reporting for the eight interviewees.

The remainder of this chapter is structured as follows. Section 6.1 outlines the mechanics of the budgeting process. In section 6.2, the relevance of agency theory in explaining the findings is compared with social constructivism. Sections 6.3 to 6.6 present the empirical findings, while section 6.7 summarises the chapter.

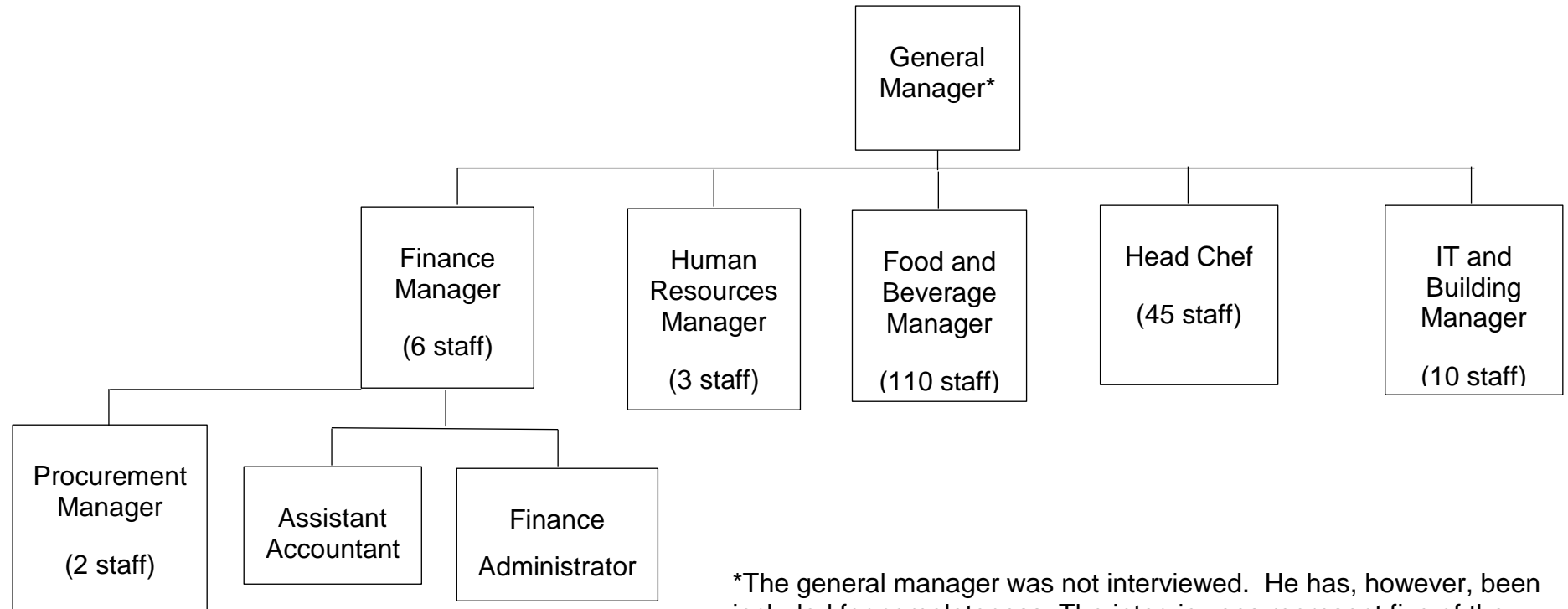
## **6.1 Mechanics of the Budgeting Process**

Whilst F&G is part of the larger corporate entity of FTL, F&G operates as a separate business. The F&G site is one of the parent company's smaller sites in terms of both staff numbers and revenue. The preparation of the budget for F&G consists of two steps. The first step is the preparation of the draft budget for the F&G site. Prior to 2010, Head Office required only total revenue and profit figures; no further detail was needed. In 2010, the assistant accountant introduced a more comprehensive process of forecasting revenue and profit at F&G; this new process now includes managers. The approach taken at F&G is in contrast to the top-down nature of the budgeting process required by FTL. The assistant accountant prepares the budgets for 11 of the 19 departments by herself. She works with the managers of the other eight departments to put together their departmental budget.

Once the draft budget for F&G is prepared, it is then presented to three of the FTL group finance team at Head Office in Auckland.<sup>41</sup> For the most recent presentation in 2012, the general manager, the finance manager, and the assistant accountant from F&G travelled to Auckland to present the draft budget. After the draft budget had been presented, the FTL group finance team informed the finance manager about changes to be

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<sup>41</sup> The three people the draft budget is presented to are the FTL chief finance officer, the general manager of group finance, and the group finance manager.



\*The general manager was not interviewed. He has, however, been included for completeness. The interviewees represent five of the eight departments where the department heads work with the assistant accountant to prepare and monitor their budget.

Figure 6:1. How the eight interviewees fit into F&G's organisational chart

made to the F&G draft budget. Several rounds of changes can be called for before the FTL group finance team is satisfied with F&G's budget.

The FTL group finance team then collates the budgets from all five sites and calculates the consolidated revenue and profit figures. The consolidated result must return an acceptable rate of growth in profit to shareholders. Once the budget is approved at chief executive officer (CEO) level, the general managers from all five sites meet with the CEO and chief finance officer (CFO) to formally present their finalised budgets. The finalised budget is then approved by the board of FTL.

In the control phase of the budgeting process, the operating budget for the F&G site is monitored on both a daily and monthly basis. Revenue is monitored daily through the daily shift reports. If revenue is behind budget, the manager is expected to work with either the marketing team or the finance team, or with both these teams, to reverse the falling revenue. The marketing team can help with strategies to boost revenue, and the finance team can advise on how to best manage costs. The monthly financial reports monitor achievement against budgeted revenue and profit. The finance team also reforecasts F&G's financial position on a monthly basis, in order to provide information on F&G's expected performance at year-end. Reforecasting the year-end results enables F&G to make changes to the budget throughout the year if it finds that it is falling behind budget targets.

## **6.2 Agency Theory vs Social Constructionism**

F&G offers a perfect example of a business to which agency theory might apply. The organisation has a simple, common goal – that of maximising profit, and earning a higher than average return for the shareholders in FTL's New Zealand and Australian businesses.

The goal of seeking to maximise wealth is taken for granted in agency theory (Ghoshal, 2005). The separation of ownership and management seen at FTL and F&G illustrates the essence of an agency relationship. At FTL, the shareholders (or the principals) engage managers (agents) to run

the business. Doing so involves “delegating some decision making authority to the agent” (Jensen & Meckling, 1976, p. 308). Under agency theory, the main issue is that some agents with delegated authority, who are assumed to act solely in their own self-interest, may possess information not freely available to senior management (Subramaniam, 2006). It is assumed that such information would be used to benefit the individual agent at the expense of the firm. To overcome such moral hazard, strict contracts and accounting systems are employed to align the agent’s interests to those of the profit maximising firm (Subramaniam, 2006).

Such a theory could explain elements of the process of budgeting at F&G. According to the finance manager:

[Head Office] have a high level understanding of what we need to do to keep our investors happy, and to ensure that we’re always growing this business, and that, whether it’s our larger investors or smaller investors, we keep growing the business, so that people want to be part of this business.

Furthermore, she spoke of FTL’s desire to return above average profit growth for its New Zealand and Australian businesses. “So if the market dictates that a 4% growth is a good growth, we would try and achieve 5%. It’s always about ensuring that we can go one up and be better than the average.”

At F&G, managers with budgeting responsibilities have budget-related KPIs, with some managers having a financial incentive, in the form of a bonus attached to meeting their budget-related KPIs. The purpose of the bonus is to encourage alignment with F&G’s budgeting goal. Achieving these KPIs is taken into account during the annual performance review. Around 2010, F&G introduced a site component to its bonus incentive programme. Managers varied on how their individual bonus incentives were structured; however, six of the managers interviewed had a site

component to their bonus.<sup>42</sup> For these six managers, around a third of their bonus was linked to the F&G site's achieving its earnings before interest, tax, depreciation, and amortisation (EBITDA) target. Prior to 2010, managers used to be accountable for their own departments. The site component "ensures that the departments don't end up in a silo and not working with other departments, and it ensures that any competition within the departments is healthy instead of a bit of push and shove type culture" (finance manager). Leana and Van Buren (1999) note that compensation policies that reward group performance "might also encourage behaviors and beliefs consistent with organizational social capital development" (p. 545) such as collective goal orientation. The finance manager believed the introduction of the site component had been successful:

... because not only does it bring the team together and push each other. It means that people are helping each other out, and if they have some ideas, they can bring it to that manager, and they can think more about the whole business rather than just the department that they operate and they manage ... So their incentive programme is to be accountable for the overall growing of the business, so that they work together.

It appeared from the comments made by the finance manager that the focus on the site component encouraged managers to cooperate and focus on the overarching commonly understood goal of making money:

So, it's really important for us to have them heading towards one goal, and to do that, obviously they need to work together, otherwise they're not going to achieve it, and that means all of them won't achieve it. So, quite often we do have departments that say well: "Things are going well in my department. Let's try and drive some more revenue through my department while we work out what's going on in your department." But they'll do that together.

Cohen and Prusak (2001) reported on IBM, which, like F&G, changed its bonus structure from a bonus based on individual performance to bonuses

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<sup>42</sup> The managers with a site component to their bonuses are the food and beverage manager, the head chef, the finance manager, the IT and building manager, the procurement manager, and the human resources manager.

incorporating firm performance. Similar to F&G, IBM found the change resulted in greater cooperation between staff. Cohen and Prusak (2001) note that “individuals are more likely to help the group if they benefit financially from better group performance” (p. 51). It appears that by linking compensation to group performance, mutual monitoring and social pressure can be used to motivate others on the team to achieve the goal (Cuevas-Rodriguez et al., 2012).

With the aim of achieving the site EBITDA target, those managers whose areas had good revenue streams would “drive” more business through their areas to compensate for any poorly performing areas until those areas could lift their revenue. The finance manager recounted how, in her opinion, the site component of the bonus scheme resulted in staff working cooperatively when one area is performing poorly:

Other departments will come in and actually put forward suggestions. Try and work something out. Do a bit of a package deal, so that they can build that up. Or what they'll do is try and compensate by driving more business through their area, so they can compensate for the other areas.

The finance team at F&G had a KPI requiring it to provide proactive support to departments. The assistant accountant described this proactive support as being more than “crunching the numbers” and sending out monthly reports. In her view, proactive support was “Actually doing what we can to help the business, and show them where we can see windows for opportunity and actually working with them and giving them support before something comes an issue.” The food and beverage manager, a recipient of the support from the finance team, described how he used the skills of the finance team proactively:

We'll go and see [the finance team] on a regular basis, making sure that we achieve ... we can get some good feedback from them as well in regards to where they think we can potentially make budget, like make more savings. So they've got a lot of skills, and we try to utilise as much of their skills as possible.

The site EBITDA target, and the finance team's budget-related KPI, encouraged managers with budgeting responsibilities to work together to achieve the business results for F&G. By introducing a site component to

the bonus incentive programme, F&G was rewarding cooperative behaviour. Nahapiet, Gratton, and Rocha (2005) note that cooperative behaviour runs counter to the notion of self-interest that underpins agency theory. Agency theory assumes managers act in their own self-interest (Eisenhardt, 1989a). However, at F&G, individuals acting in their own self-interest were rewarded for their cooperative behaviour. In this instance, agency theory is inadequate in explaining the empirical findings.

At F&G, the budgeting process was top-down in nature, as Head Office sent a strong signal on the expected revenue and profit figures for the upcoming budget period. According to the assistant accountant: "We, in a sense, get told what we are expected to achieve in the end."

Among the people interviewed, there was no disagreement about the purpose of the business. Although expressed differently by each interviewee, as indicated in Table 6.1, all eight interviewees<sup>43</sup> indicated they understood the common goal of F&G was either to return a profit, or to grow the business.

Although agency theory could explain some of the features of the planning and control processes at F&G, the argument in this thesis is that a more comprehensive theory that encompasses human agency and social capital better explains the evidence.

What is notable about the quotations in Table 6.1 is that the interviewees expressed a commonly understood goal. This is the first point of difference with agency theory. This case study will illustrate how the common goal of profit maximisation is not a given, a simple part of external reality for individuals, but is itself a social construction. In a church people construct a religious goal; in a science laboratory they construct a scientific goal; and, in an entertainment complex there is a consensus about the goal of making money.

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<sup>43</sup> Table 6.1 contains quotes from seven interviewees. For the eighth interviewee, the IT and building manager, the notion of returning a profit was implicit in his responses to interview questions.

Table 6:1. How interviewees viewed the common goal

Interviewee	Quote
Finance manager	“Ensure we return as much profit as we can”
Food and beverage manager	“To achieve as much maximum profit to the bottom line for the business”
Head chef	“Making money for the business”
Procurement manager	“Part of a team to achieve the business results”
Human resources manager	“The management team definitely wants to see things continue to progress, and continue to grow, and the profits continue to increase.”
Assistant accountant	“To have the business grow and be as successful as it can”
Finance administrator	“I don’t want to see the organisation going backwards. I want to see [that] the company is progressing is going on.”

At F&G, the commonly understood goal of profitability and growth formed a shared business understanding and a shared strategic agenda. Huppi and Seemann (2001) note that a shared business understanding and a shared strategic agenda are intangible factors that provide a common business context in an organisation. This common context arises as those in the organisation have “a shared way of thinking about things” (Huppi & Seemann, 2001, p. 36). This thesis’ view of social capital includes a shared context dimension.

The budgeting process at F&G was very much a social activity and depended on certain organisational norms. This social activity is absent from agency theory. The rest of the chapter (sections 6.3 to 6.6) examines budgeting as a social process at F&G. It demonstrates that the process is a part of encouraging and promoting social capital, and that the pursuit of a wealth maximising goal is part of a “game” that plays out at F&G.

### **6.3 Budgeting Reinforces Organisational Norms and Values**

FTL has a set of written, corporate values that focus on the “Let’s All Play” theme. These values have “a sports team theme” (procurement manager), and were introduced “just before the Rugby World Cup [in 2011]” (procurement manager). The values are displayed on posters in parts of the F&G site used by employees, and are formally presented in a glossy booklet. The four values, as outlined in the “Let’s All Play” booklet, are: “Play Fair”; “Play Hard”; “Play a Part”; and “Play Time”. The booklet describes the values in more detail:<sup>44</sup>

- *Play Fair* is to do with being responsible for actions, giving credit where it is due, treating others with respect and standing up for what you believe.
- *Play Hard* is about having a “can do” attitude and rising to the challenge of meeting every task head on; realising the impact of your actions, for example, the goodwill created in going the extra mile for customer; having courage; and being committed to success.
- *Play a Part* is about teamwork, working together and supporting each other, striving to succeed, and the challenge to be the best.
- *Play Time* is about having fun, being happy, looking after those on the team and enjoying the journey.

The values were perpetuated through the human resources policy of hiring staff that aligned with the values. This practice corresponds with Cohen

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<sup>44</sup> The values described above are a paraphrased version of the organisational values appearing in FTL’s Let’s All Play booklet.

and Prusak (2001), who note that there is an association between social capital and long-term stability, and hiring staff who fit well with the culture of the organisation.

The “Let’s All Play” values form the criteria used to judge the Quest for the Best quarterly staff awards. Staff can nominate each other for excellent work in categories based on the values, with a committee deciding the winner in each category. Carrying on the “Let’s All Play” theme, F&G also runs a State of Play meeting three or four times a year. It takes the form of a State of the Nation talk and is given by the general manager or one of the senior managers. The talk focuses largely on operational issues, although limited financial information is also communicated through this forum.

While the values could be seen as “a nice piece of HR marketing” (procurement manager), interviewees believed the values were important to the way they operated. The information technology (IT) and building manager believed the values were “more than just a little green booklet.” The procurement manager believed the values “are alive,” whilst the head chef believed the values were taken seriously by those in his department. The assistant accountant likened the values to a “work ethic” saying: “Generally everyone’s got a pretty good work ethic and is aware that the company focuses on it.” Three interviewees indicated they adopted FTL’s values “subconsciously” (finance manager<sup>45</sup>), with the values influencing budgeting indirectly through their subconscious mind. The assistant accountant remarked that she kept the values in the “back of her mind.” She commented: “When I’m in the middle of working in a spreadsheet, I’m not really thinking about [the values].” However, she believed the values influenced her work at a subconscious level. In the context of budgeting, the human resources manager said: “I’ve always got the values ... front of [my] mind.” The IT and building manager commented the values are “sort

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<sup>45</sup> In this instance, the finance manager referred to is the newly promoted assistant accountant.

of ingrained in our heads, so they're always there." For him, the "ingrained" values did not affect the setting of the budget, but influenced how his budget was achieved.

By adopting the organisation's values subconsciously, these managers are effectively internalising the values (Coleman, 1990). At F&G, the values have become norms, as they provide "a degree of consensus in the social system" (Nahapiet & Ghoshal, 1998, p. 255). Norms are a feature of social capital mentioned in the literature (Coleman, 1988; Nahapiet & Ghoshal, 1998; Putnam, 1993), and have been incorporated in this thesis in the relational dimension of social capital. In the sections that follow, the terms 'value(s)' and 'norm(s)' are used interchangeably. The following two sections, sections 6.3.1 and 6.3.2, examine the influence of organisational norms on F&G's budgeting process.

### **6.3.1 Play a part.**

Teamwork is a norm identified in organisations in the social capital literature (Nahapiet & Ghoshal, 1998; Pearson et al., 2008; Subramaniam, et al., 2013). Cooperation is related to teamwork, and is a further norm identified in the social capital literature (Edwards, 2004; Nahapiet & Ghoshal, 1998). In the opinion of the procurement manager: "Most people that work here will know the values about playing part [sic] of the team." The assistant accountant saw the team spirit operating at F&G in the following way:

They'll create a team around them that strengthens their team ... so they're constantly working on trying to keep all their individual staff and everyone happy, and feeling like they're motivated, and that they're important, and all those sorts of values, and those sorts of things. From top-down, it sort of flows down that way.

Through experience, the assistant accountant had a "fairly good idea" of how long it would take managers to do their part of the budgeting process. She set internal budgeting deadlines so as to give herself and managers ample time to do their job. She gave managers with budgeting

responsibilities plenty of notice that budgeting was coming up, giving managers a month to complete their part of the process:

I've got to obviously plan well ahead as far as making sure I'm notifying all of the team about what they need to do for me and when I need it by... and time management to allow the team to be able to do what they need without missing any deadlines in the process, so there's a lot of working together to make sure that happens.

The assistant accountant believed the team spirit occurring during budget preparation time was enhanced by the low turnover of managers in the senior management team, as most managers were familiar with the process. "Because we don't have a high turnover in our senior management team, everyone's in the swing of things. They know what's happening, and they know how to do it, and what's required" (assistant accountant). As there has been a low turnover among senior managers, they have had time to get to know and understand each other, as "relationships and trust develop over time" (Cohen & Prusak, 2001, p. 141). Nahapiet and Ghoshal (1998) agree, noting that: "Time is important for the development of social capital, since all forms of social capital depend on stability and continuity of the social structure" (p. 257).

The finance administrator shared his view on how the finance manager<sup>46</sup> built the finance team by leading by example:

"I think that's the point that if you lead by example, you can encourage your team to work hard ... Like [the finance manager], she's [a] really good example. She'll lead by example all the time. She's such [a] workaholic."

According to the finance administrator, teamwork was very important to the way the finance team was run. To this end, team members were cross-trained, so that if one member of the team was away, other team members could fill in. "So that's why we're doing cross-training, and then make everyone actually a part of the team ... and then we[re] working toward the team goal together."

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<sup>46</sup> In this instance, the finance manager referred to is the newly promoted assistant accountant.

The finance manager related how she, the general manager, and the assistant accountant worked as a team to prepare the F&G draft budget before presenting it to the FTL group finance team. The team approach helped to ensure they were all thinking the same way and telling the same story about the numbers, and that there were no contradictions in that story:

What we need to have in our mind is the story behind why the numbers are the way that they are. And so that's something that we sit down and we have several meetings around a round table, talking about why these things are, and we ensure that everything I'm thinking, [the general manager's] thinking or [the assistant accountant's] thinking as well, because we need to share that information, and we need to ensure that when we go up there, we know strongly what each other's talking about, before we even present to somewhere else. (finance manager)

The IT and building manager involved his staff in the setting of the operating and capital expenditure budgets, as his staff were the ones that "work on the ground, day in, day out." saying:

I like to involve them as much as I can in the budgeting process. I think it's important that they know why I'm asking them to do what they do. And it also gives them a sense of ownership, I believe, especially around capital budgets.

In his opinion, a budget that was dictated to him and his team would adversely affect working relationships:

If we had a budget which was put on us and dictated to us, which we felt we didn't have input to, absolutely, it would [affect working relationships], and that's why I try and involve the guys as much as I can in that budget process, because I think it's so important that the guys know why they're doing their job and how it affects the business as a whole.

He supported his team by taking responsibility for any "heat" from managers above him for cost overruns:

I've said to them: "I'll take any sort of heat for any cost blowouts as long as the operation is getting support." So, if a dishwasher blows up in the main kitchen, we've got to get it fixed no matter what the cost, and they know that it's my responsibility. I'm the one that is answerable, at the end of the day, for any cost stuff.

The food and beverage manager involved his team in budgeting, albeit in a more limited fashion. For him, consultation was important. He sought advice from his four assistant managers and his function sales person, asking them whether they considered the draft budget to be achievable and if the revenue timing was realistic. He also used quizzes about the products used in his area to build a team spirit. He indicated these team-building exercises influenced his budget indirectly, as happy staff stayed longer, “which reduces our turnover [of staff] ... which will help our budget in that aspect.”

A team approach was pivotal to the way the head chef achieved his budget:

“I think team spirit’s not part of the budgeting process. It’s part of achieving the budget ... But not part of the writing of the budget ... But to achieve the budget, the team spirit is 100% how we do that.”

The team spirit was furthered by his employment policy of hiring staff predominately on the basis of their ability to work in a team environment, as he believed: “I can teach people to cook ... But I can’t teach them to be a team player.” Such an employment policy is congruous with Cohen and Prusak (2001), who consider that employees may be selected for “cultural fit” (p. 138).

The previous evidence has indicated that the budgeting process reinforced the norm of teamwork. Teamwork was reinforced as managers, and teams, worked together during the preparation and execution of their budgets.

The finance manager recounted how managers with budgeting responsibilities were supportive of budgeting, and worked to ensure they met their deadlines:

They’re definitely all very supportive because they know how much work is involved in pulling everyone’s budgets together, so as soon as I start throwing the words “Budgets, budgets

are coming up”, they’re always definitely saying: “Well let me know what you need, and when you need it by.”<sup>47</sup>

The finance manager stressed the usefulness of having close working relationships among managers involved in budgeting, as this enabled the smooth running of the budgeting process:

“If you’ve got a close relationship, it becomes easier to work with people and give deadlines and have people working towards them to help you ... if you have that respect, or friendship with them.”<sup>48</sup>

Thus, the task of budgeting reinforced the norm of close, supportive working relationships. In this instance, social capital acted as a lubricant that “eases and energizes” (Anderson & Jack, 2002, p. 193) interaction between people. The lubricating effect was seen in supportive working relationships among those involved in budgeting. On this occasion, a circular relationship occurred (Leana & Van Buren, 1999; Putnam, 1993). As staff acted in a supportive manner, the norm was reinforced and strengthened, forming a foundation for future interaction.

The *Play Hard* and *Play Fair* values were present during the budgeting process in a manner that promoted teamwork. The finance administrator believed the *Play Hard* norm was seen in the way the finance team worked as a team to meet deadlines. “Play Hard means when we’ve got some strict deadlines for some work, you need to finish by a certain time. And then we [have] no problem to work long hours to get [the] job done.” To illustrate the *Play Hard* value, the finance administrator referred to his boss, the finance manager, who, in the previous week, had worked over 60 hours to meet budgeting deadlines. In this instance, the budgeting process, with its strict deadlines, reinforced the norm of a “can do” attitude as the finance manager rose to the challenge of meeting the budgeting

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<sup>47</sup>This quote was taken from the interview with the assistant accountant after she was promoted to finance manager.

<sup>48</sup> This quote was taken from the interview with the assistant accountant after she was promoted to finance manager.

deadline. In a second example, the finance administrator and the assistant accountant worked long hours when new software was introduced for the core business. In these two examples, members of the finance team worked together to ensure the task was completed on time.

Regarding the *Play Fair* value, the assistant accountant believed the mutual respect arising from her close working relationships with managers with budgeting responsibilities helped in the smooth running of the budgeting process. Respect for staff is a norm found in the literature (Peters & Waterman, 1982). She considered that by treating staff with respect, in a professional and courteous way, staff would reciprocate in kind. "What your actual department's ethics are end up coming back and being reciprocated" (assistant accountant). Reciprocity is a norm associated with social capital in an organisation (Edwards, 2004; Putnam, 2000; Stone & Hughes, 2002). In accordance with the norm of respecting others, the assistant accountant is reinforcing the norm. In addition, this norm may be further reinforced as managers respond in kind.

The *Play Fair* value was also seen in the way the food and beverage manager gave credit to staff members who suggested useful strategies to lift revenue:

We always tell [the assistant managers and duty managers], come up if you have any ideas of how we could drive business any further. Please give [your] ideas in. The same with staff. And if anybody's idea's been used, I always believe in giving the person full praise for their idea, and give them full credit.

In this instance, the *Play Fair* value of giving credit where it is due was reinforced through the food and beverage manager's team approach to attaining budgeting revenue.

### **6.3.2 Play time.**

The food and beverage manager was aware that "recruitment costs a lot of money." In addition, once new staff have been hired, they take about "3 or 4 weeks of decent training until someone gets up to a basic level." He preferred to spend "money on trying to keep people and training and

developing [them] further”, rather than on recruiting and training new staff. The food and beverage manager promoted existing staff where possible, realising that, by doing so, he was saving money in terms of having to hire and train new staff. An added advantage was that existing staff were familiar with the values, and understood the business. By promoting staff who were familiar with the values, he was sending a signal to other staff about the work habits that were important to the organisation. Cohen and Prusak (2001) note that the practice of promoting existing staff results in managers who are familiar with the business and its values. The food and beverage manager also budgeted for realistic staff ratios in the bars and outlets, so staff were not unnecessarily stretched. “Because at the end of the day, it comes back down to you’re not going to keep your staff if you’re not going to make them happy” (food and beverage manager). Hence, staff were viewed as “assets to be developed rather than costs to be minimized” (Leana & Van Buren, 1999, p. 550). There is no contradiction with the budgeting goal of reducing costs to maximise profit. The goal is understood as being consistent with the norm of looking after those on your team.

For the F&G site’s recent tenth birthday celebrations, F&G put on an all-day buffet, breakfast, lunch, dinner, and supper, so that staff on all the shifts could participate in the celebration. According to the human resources manager:

When I’m thinking about budgeting, that spike for [the tenth birthday celebrations], I’m thinking we’re a corporation, and we’re all about fun and entertainment, and so we need to provide something for our staff, and so, yes, there’s a financial component to that.

In this instance, the *Play Time* value influenced the budgeting process as the norm resulted in funds being set aside for that purpose. The human resources manager also organised staff activities such as a wellness initiative in the form of a weight loss challenge which were designed to create community.

F&G hosts an Easter Party for staff and their families on Good Friday when the site is closed. At this party, the head chef cooks dinner for all the staff. There is also free bowling, free space invader machines, free drink, free ice cream, and free parking for staff and their families. During the year, F&G also provides staff with free health insurance, subsidised parking, discounted coffee and food from the outlets, and long-service benefits. Promoting a sense of community in an organisation has been associated with social capital (Cohen & Prusak, 2001).

Section 6.3 has examined how organisational norms were reinforced through the activity of budgeting, as managers acted in ways that were congruous with those norms during their budgeting tasks. There was a circular relationship between the presence of norms and their reinforcement (Leana & Van Buren, 1999; Putnam 1993). The norm was present, and as managers acted in ways that were congruous with that norm, it was in turn reinforced and strengthened. These reinforced norms then become the new foundation for further reinforcement and strengthening.

At F&G, the *Play Hard and Play Fair values*, and the supportive working relationships, laid a foundation for how those with budgeting responsibilities functioned as a team. The aim of the norm of teamwork was to work together to achieve F&G's common goal of returning a profit. In the section that follows, budgeting and the common goal are examined.

#### **6.4 Budgeting and the Common Goal**

As indicated earlier, all eight interviewees indicated they understood that F&G's common goal was either to return a profit, or to grow the business. They saw themselves actively engaged in the production of the commonly understood goal, and appreciated the contribution of the budgeting process to its achievement.

Managers used active words such as *achieve*, *drive* and *push* to describe the role of budgeting in achieving the commonly understood financial goal. The word *achieve* was often used in the context of meeting the budget,

suggesting an emphasis on performing to meet the common goal. The food and beverage manager spoke of the need to “Work really hard to make sure that we achieve over budget the next month, so then you achieve the budget for the year.” The assistant accountant related how managers behind on budgeted revenue would manage “their costs to try and achieve their budget in that way.” The procurement manager mentioned being “part of a team to achieve the business results.” The head chef remarked how he wanted to know what he was expected to achieve, “and then I try and achieve it.”

A second word often associated with budgeting was *drive*. The word drive was used in a forceful, almost aggressive manner. Interviewees spoke of the need to drive revenue, drive results, and drive the business. The food and beverage manager talked about how, when participating in the budgeting process, he could “have a say in which I think is going to be the outlet that has more potential to drive the bigger revenue than others.” The finance manager mentioned making changes designed to “help drive revenue further” and spoke of “driv[ing] the [business] results even further” and the need to “drive the business further.” Similarly, the food and beverage manager commented on the need to “drive business to our [core business].”

Another word linked with budgeting was *push*, which was used in the context of preparing and achieving the budget. Interviewees used the word push in the context of budget target negotiations. The IT and building manager shared how, for him, the budget was not “Something that I’ve pushed back on. It’s something I’ve signed off on as well and gone: “I believe that if I do it right, I can hit that number.”” Similarly, the assistant accountant commented that she was prepared for the head office finance team to “push for more” revenue and profit. The finance manager wondered if the FTL finance team from Head Office were “going to want to push us for more profit?” The word push was also used to describe pushing revenue or pushing the budget, in order to achieve budget targets. The head chef provided an example when he said: “We always try and push, push the budget as hard as we can.” Likewise, the

food and beverage manager related how, when revenue was low, he realised he needed “to work harder to push that revenue.”

In the case of the finance manager, the language used to describe budgeting was emotionally loaded and almost combative. She talked about a “reasonably aggressive budget” and clarified an aggressive budget as follows:

We are budgeting for a strong growth and in order to achieve this growth we need to be both spending our capital budget wisely (and showing the reasons and need for this capital spend) as well as managing it throughout the year to ensure we meet all our planned capital project deadlines.<sup>49</sup>

She also spoke of her need to go into the budget review meeting with the FTL head office finance team “fighting strong”, “fighting for her strategies”, and having to “defend and explain all our reasonings.” These comments were made in the context of a budget that involved a large amount of capital expenditure which was needed to generate operating growth. The finance manager was confident in and familiar with the strategy and numbers underpinning the proposed budget. She felt that in the meeting with the FTL head office finance team, she had to “fight” and “defend” the proposed capital expenditure and reinforce the point that the capital spend was required to achieve the proposed operating budget.

The language used by managers to describe how they worked together to attain the common financial goal was success-orientated, assertive, and forceful. In this capacity, the language exhibited an element of the *Play a Part* value, as the language used by interviewees demonstrated a desire to succeed. This thesis includes a shared organisational language and vocabulary as part of the shared context dimension of social capital. Nahapiet and Ghoshal (1998) indicate that “group-specific communication codes” are “a valuable asset within firms” (p. 254). In the context of budgeting, these “group specific communication codes” may include

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<sup>49</sup>The assistant accountant was promoted to finance manager in April 2013. This quote was taken from the interview with her after she was promoted to finance manager.

financial terms and jargon. According to Nahapiet and Ghoshal (1998), the development of “unique codes and language” (p. 258) is aided by community separation, or closure. “Formal organizations, by definition, imply a measure of closure through the creation of explicit legal, financial, and social boundaries” (Nahapiet & Ghoshal, 1998, p. 258). Evidence from the interviews indicated F&G was a community in its own right. In this thesis, closure is included as part of the structural dimension of social capital. In the section that follows, I examine how managers worked cooperatively in the activity of budgeting to achieve the commonly understood goal.

## **6.5 Budgeting can Bring People Together to Work Cooperatively towards the Common Goal**

The procurement manager compared the cooperative, team approach to achieving the common goal he believed operated at F&G to a rugby team:

It's like a team. You're part of a team, so whether it's a rugby team where you've got your forwards and the backs who have got specialist type[s] of areas, but you're all there for the common goal and then you have your coaches and your managers and your captains, your leaders...

At F&G, five of the managers interviewed referred to working cooperatively towards the common goal. As outlined in section 6.2, the commonly understood goal was for F&G to return a profit or grow as a business. The human resources manager commented on how, in her opinion, managers worked as a team towards achieving the common goal. “We’re all working as a team towards common goals. We communicate well. We interact well. I think that the relationships that people have in general are very good.” Both the assistant accountant and the finance manager referred to a team approach to achieving the common goal. In the context of financial management, the finance manager commented that, in her view, managers liked “heading towards one goal.” Similarly, in the context of budgeting, the assistant accountant referred to staff as being “focused” and sharing the same vision “that we want to work together to help what needs to be done.” Likewise, in the opinion of the head chef, managers were all working towards a common goal. “We all want to achieve one

goal and that is to do the best that we can for the business, and I think that's really important. So we're all here for the same thing."

The food and beverage manager indicated that the aim of working together to achieve the commonly understood goal stemmed from the general manager. Whilst the core business brings in around 80% of revenue, the general manager emphasised the fact that the food and beverage outlets and the bowling alley played a valuable role in drawing customers into the core business, and thus helped the core business to achieve the business results for the whole F&G site.

The food and beverage manager was cognisant of the need for him to do the best he could in his area, knowing that his efforts would contribute to the success of F&G:

Like for me, I know most of my focus is on driving what's in my outlets, but I have to be able to achieve certain tasks that will drive business to our [core business] and then make [F&G] a lot more successful.

Likewise, the head chef related how he put unpaid hours into his job to ensure the achievement of the business results:

On the management team, everyone would do whatever it takes to make [the business] work ... And that's where the culture comes into it, and these [values], come into it ... I give up hours to come in and work, just to make it work, to do better.

By putting aside individual budgeting goals, and focusing on collective budgeting goals, managers were displaying what Leana and Van Buren (1999) term associability. Associability is a component of Leana and Van Buren's (1999) notion of organisational social capital. The activity of working together towards a common goal also produced bonding social capital (Putnam, 2000). Adler and Kwon (2002) note that bonding social capital among individuals can "give the collectivity cohesiveness and thereby facilitate the pursuit of collective goals" (p. 21). The importance of bonding social capital is reflected in its inclusion in this thesis as part of the structural dimension of social capital.

As the finance team worked closely with the departments at F&G, and was aware how each department was performing, the assistant accountant believed she could easily prepare F&G's budget by herself:

A lot of the information that I need, I am already aware of without necessarily needing to go to them. It's almost, because we as a department are so close [at F&G] with all of our departments, we don't really need them to tell us what they're telling us. (assistant accountant)

However, by including some managers, both parties agreed on the budget:

The point of having these department managers is that they are focused on their departments, and it's kind of good to know that we are all on the same page and we could, if we had to, get to the same place. It's not that they're giving us an answer and we're going: "That's not good enough. You've got to do this." We're both individually basically agreeing on where the businesses should be going.

The food and beverage manager appreciated the inclusive and informal nature of the participative process, saying his meetings with the assistant accountant were like "sitting down and having a conversation." He felt he was not told what to do, and that he had input as to where revenue and costs for the beverage portion of the food and beverage budget would be allocated:

Myself and [the assistant accountant] will sit down and we'll debate where we think [revenue and expenses are] going to go and it's quite good, because basically you're not being told. You can have input where you think it's going to happen.

The decision to introduce an inclusive approach to the budgeting process involved some managers' participating in the setting of their budgets. The finance manager commented that she wanted managers to "feel like they own the business and they're part of it." Participation can provide managers with "shared feelings of working toward goals that they believe in" (Parker et al., 1989, p. 20). By owning the budget, managers were identifying with the budget, and internalising the budgeting goals as their own. Identification is included in this thesis in the relational dimension of social capital.

The head chef gave his sous-chefs and chefs de parties access to the daily shift reports, and the monthly financial reports, so that all his managers were aware of revenue trends. Each day, shift reports providing information on revenue from the core business and the food and beverage outlets were sent out to the management team. The shift reports provided information on daily and weekly revenue for the month. He considered it important to be transparent with financial information, so that his team “know what [they] need to achieve.” He remarked that if “They’ve got the figures, they know what they need to achieve and then they’ll do their best to make it happen. And that’s the culture that I try and bring into the kitchen.”

The food and beverage manager explained the importance of sharing the daily shift reports with his staff:

You give them as much information as possible ...You’ve got to be as open as possible with your team, even your duty managers and your assistant managers, even to staff as well ... So basically the staff realise: “Oh, okay, we’re not hitting target at the moment. Okay, I need to work harder to push that revenue” ... We discuss when and where we need to push, or if we’re achieving above or below.

This transparency contributed to achieving budget targets, as his managers were aware of revenue trends. The finance manager related how the monthly reports were reviewed in the weekly management team meeting. “We review them in our management meeting, in detail, every time that the monthly report’s done.” The norms of open disclosure of information and transparency seen at F&G are norms associated with social capital in an organisation (Huppi & Seemann, 2001; Nahapiet & Ghoshal, 1998).

From the previous evidence, it is apparent the process of preparing and monitoring the budget led to managers’ working cooperatively together with their teams, and with each other, to attain the common goal of achieving the business results for F&G. In the section that follows, the role of budgeting in encouraging social interaction and fostering relationships is examined.

## 6.6 Budgeting Encourages Social Interaction and Fosters Relationships

Evidence from the interviews indicated that the budgeting process promoted social interaction and relationship building in terms of both formal and informal network ties. However, the budgeting process was found to have the biggest impact on interaction and relationship building in formal network ties. Formal and informal network ties are part of the structural dimension of social capital in this thesis. These work-related formal network ties were of two types. In the first instance, the budgeting process encouraged formal network ties in situations where managers' job descriptions required them to interact with others when performing budgeting tasks. Knoke (2009) comments that "many social capital relations are specified in formal job descriptions" (p. 1694) which outline supervisory and information-reporting relations. The assistant accountant related how the "shared service" nature of her job brought her in contact with people from other departments:

I have quite a lot of interactions with almost all of the departments ... I'm already quite involved in, and know most people in, most of the outlets. I won't know all the chefs in the kitchen and that sort of thing, but we do work with almost all of the departments ... You sort of are already working with everyone as part of your job.

As the assistant accountant did most of the day-to-day work on the budget, she was involved in many informal budget-related meetings. She worked with the finance manager at the beginning of the process to discuss their initial expectations of revenue and profit and any potential changes to the current year's budget. She worked with the food and beverage manager to prepare the revenue budget for the beverage side of the business. Likewise, she reviewed the revenue forecast prepared by the head chef. She also worked with the IT and building manager, helping him with the preparation of his budget. There were other informal budget-related meetings between managers such as the head chef consulting with the food and beverage manager regarding the food portion of the food and beverage budget.

The second instance of the budgeting process promoting interaction and relationship building occurred during formal, regular meetings of various groups of managers, in line with their job description and seniority. Examples of these meetings were the management team and senior management team meetings. A further example was the weekly meeting of the food and beverage management team where finances were discussed.

There were also formal, organised networks which brought groups of people together such as senior managers representing F&G at charity events. In the finance manager's<sup>50</sup> opinion, while the charity events provided her with an opportunity to get to know other managers, they influenced budgeting indirectly through closer working relationships with other managers. Other organised events such as the Easter Party, the quarterly Quest for the Best staff awards, and the quarterly State of Play meetings did not appear to influence interaction and relationship building between those with budgeting responsibilities. However, in the opinion of Nahapiet and Ghoshal (1998), meetings and social events can bring people together and "can be viewed as collective investment strategies for the institutional creation and maintenance of dense networks of social relationships" (p. 258).

Numerous informal network ties existed between various groups of staff, with some interviewees actively socialising with members of their team out of work hours. Whilst these informal networks appeared to have little effect on interaction and relationship building during budgeting, it is possible interviewees simply overlooked their importance and did not mention them. There was also an active grapevine operating at F&G.

Cohen and Prusak (2001) consider that social capital in an organisation can be enhanced by the provision of physical spaces for staff to meet and socialise. A physical space in which to connect is part of the structural

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<sup>50</sup>The assistant accountant was promoted to finance manager in April 2013. This quote was taken from the interview with her after she was promoted to finance manager.

dimension of social capital in this thesis. At F&G areas were set aside for staff, for example, there was a staff room, and a balcony for smokers. However, these areas appeared to be used by outlet staff and not by managers.

From the evidence presented in this section, it is apparent that most of the social interaction and relationship building promoted by the budgeting process occurred in formal, work-related settings. Informal networks were not mentioned as having an influence on helping managers in their budgeting role. It appears that the social interaction and relationship building that happened during the budgeting process occurred in the context of working together to achieve the commonly understood goal of returning a profit. The section that follows summarises chapter six.

## **6.7 Summary**

This chapter has presented the findings from the third case study organisation, F&G, a public company. Aspects of F&G's budgeting process such as seeking to maximise profit, provide above average returns, and use of financial bonuses indicate that agency theory might help explain the findings. However, the budget-related bonuses also encouraged cooperative behaviour. In this instance, agency theory was inadequate in explaining the empirical findings. There was also evidence of other social practices and norms that occurred during F&G's budgeting process which indicate that agency theory was inadequate in explaining the findings.

F&G had a set of formal organisational values which some managers internalised, and which had become norms at the organisation. Teamwork was found to be important in preparing the budget, and was fundamental to achieving budgeting goals. The *Play Hard* and *Play Fair* values were evident in the budgeting process, particularly in their influence on teamwork. The *Play Time* value was seen through funds allocated to celebrations and to creating community. Money set aside for training and developing existing staff was part of the *Play Time* norm, as team members were being looked after. Teamwork, along with the other

organisational norms, led to managers' working together towards the commonly understood goal.

Managers involved in budgeting were found to use active, success-orientated vocabulary such as achieve, drive and push when referring to reaching the commonly understood goal. At times, the language used to describe budgeting was emotionally loaded and combative.

The budgeting process was found to bring managers together to work cooperatively towards the commonly understood goal. This cooperative behaviour was linked to the norm of teamwork. There was a focus on managers' laying aside individual budgeting goals and focusing on collective budgeting goals. The practice of managers' participating in setting their budgeting goals contributed to their working together to achieve a commonly understood budgeting goal. Likewise, the sharing of budgetary information among managers in a team contributed to cooperative behaviour in achieving commonly understood budgeting goals.

Budgeting was also found to encourage social interaction and to foster relationships. Managers involved in budgeting were found to interact with other managers as they carried out their part in the budgeting process. In addition, there were regular, formal meetings of managers where F&G's finances and budget were discussed. The social interaction and relationship building occurred as managers worked together to achieve the commonly understood budgeting goal. Informal network ties appeared to have little effect on interaction and relationship building during the budgeting process.

In the chapter that follows, the discussion chapter, the findings from the three organisations are compared in order to highlight similarities and differences. Literature relevant to all three organisations is incorporated into the discussion.

## **7. Discussion**

This thesis has studied budgeting practices in three organisations that differ in their profit orientation and the industries within which they operate. Fountain Springs (FS) is a not-for-profit church; Independent Testing (IT) is a privately owned science laboratory; and, Fun and Games (F&G) is an entertainment centre owned by a listed company. Despite these differences, definite similarities in the budgeting process were evident at the three case study organisations. Section 7.1 considers the findings from the three case study organisations on the topic of how budgeting was found to reinforce organisational norms and values. In section 7.2, the relationship between budgeting and the common goal in the three organisations is discussed, while section 7.3 considers how budgeting was found to bring people together to work cooperatively towards the commonly understood goal in the three case studies. Section 7.4 examines how budgeting was found to encourage social interaction and foster relationships. In section 7.5, a social capital perspective on budgeting that was evident at the three organisations is outlined, while section 7.6 summarises the chapter.

### **7.1 Budgeting Reinforces Organisational Norms and Values**

While the three organisations differed in their profit orientation, and operated in different industries, they all had a set of formal, written organisational values. These formal values effectively constituted social norms in each of the three organisations, as they “represent[ed] a degree of consensus in the social system” (Nahapiet & Ghoshal, 1998, p. 255). In addition to the formal norms, FS and IT both had informal norms which were recognised by interviewees as constituting part of the social system. At FS, generosity was an informal norm, while at IT the family culture performed a similar function. The presence of formal and informal norms agrees with the social capital literature stance that norms are an important feature of social capital (Cohen & Prusak, 2001; Coleman, 1987, 1988; Fukuyama, 2001; Huppi & Seemann, 2001; Nahapiet & Ghoshal, 1998; Productivity Commission, 2003; Putnam, 1993, 1995a, 1995b). Norms are

included in the relational dimension of social capital in this thesis. The norms share some similarities. At both FS and IT, valuing people was a common norm, whilst F&G's values of teamwork, treating others with respect, and supportive relationships focus on valuing people. Further, the norms of honesty and integrity were common to both FS and IT.

At FS and IT, there was a close connection between senior staff members and the values. At FS, the formal values were closely linked to the personal values of the senior leaders. Likewise, the formal values at IT were a reflection of the personality of the managing director who, along with his wife, established the company. The close connection between the values and a senior staff member at FS and IT is illustrative of an appropriable organisation. This term refers to how social capital developed in one social setting can be transferred to another social setting (Coleman, 1988; Nahapiet & Ghoshal, 1998). In the case of the senior managers at FS and IT, their personal values influenced the values in their respective organisations. In contrast, the formal values at F&G were corporate values, developed by human resources at Head Office prior to the Rugby World Cup in 2011. At IT, the values formalised existing work practices. In contrast, the values at F&G appeared to be "encouraged" by Head Office, while the introduction of the values at FS resulted from a change in leadership.

At all three organisations, values were internalised by interviewees, were taken on personally, and influenced the way they worked. Internalising values appeared to be most marked at FS, possibly due to the clause in the staff employment contract where staff members agreed to "buy into" FS' values. By internalising the values, and adopting the values at a personal level, interviewees were identifying with the values or "see[ing] themselves as one" (Nahapiet & Ghoshal, 1998, p. 256) with the organisation. This process of identifying with the values is akin to Leana

and Van Buren's (1999) concept of associability.<sup>51</sup> In the context of budgeting, interviewees laid aside their own values and adopted the values of the collective, or the organisation. The adoption of organisational norms and values appeared to contribute to their reinforcement. This process was also seen in the social capital literature in the form of a circular relationship.

Another feature of the formal organisational values seen at all three case study organisations was the practice of employing staff who had values that aligned with organisational values. By taking this approach, each organisation was effectively perpetuating its values, as the "values and assumptions" (Nahapiet et al., 2005, p. 8) brought by new staff members into the organisation were consistent with those of the organisation. Hiring for cultural fit with organisational values was most marked at FS, the not-for-profit church, possibly due to the nature of the staff employment contract. It could be argued that such a practice could lead to negative consequences for the organisation such as restricting the flow of new information and ideas (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998), resulting in the risk of groupthink and rigidity (Cohen & Prusak, 2001; Nahapiet & Ghoshal, 1998). This issue is addressed more fully in section 7.4.

The notion that employing staff who have values similar to those of the organisation has been confirmed in the social capital literature (Leana & Van Buren, 1999), and in the budgeting literature (Parker et al., 1989). Both these studies believe that an organisation can influence its culture by taking into account the values of prospective employees, and employing those who "fit in". Similarly, Prusak and Cohen (2001) argue that an organisation can invest in social capital by "hir[ing] for it" (p. 93). Hiring staff who have similar values to the organisation also means new employees are more likely to assimilate into the organisation (Cohen &

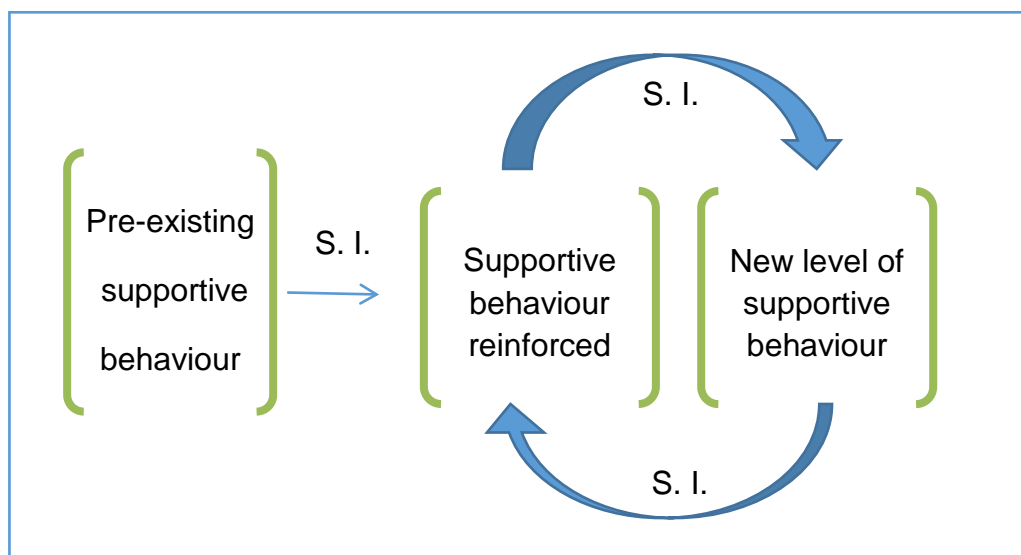
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<sup>51</sup> According to Leana and Van Buren (1999), associability is "the willingness and ability of participants in an organization to subordinate individual goals and associated actions to collective goals and actions" (p. 541).

Prusak, 2001). The practice of hiring staff who adhere to an organisation's values was also found in a Vietnamese social enterprise (Vieira et al., 2013). The organisation "paid close attention to the social commitments of candidates to ensure that they shared and respected [the organisation's] values" (Vieira et al., 2013, p. 29). Similarly, an Australian not-for-profit organisation "will not employ staff who do not present with values consistent with the core ideals of social justice" (Chenhall et al., 2010, p. 750). Likewise, Jeavons (1993), in the context of a religious organisation, believes that in order to ensure a religious organisation makes "a witness as well as providing a service", it should "recruit and retain people who believe in the importance of that witness and the values that undergird it" (p. 67). This was the situation at FS, where only staff who believed in the importance of the witness (i.e., were Christian), and held to FS' values, were hired.

A circular relationship appeared to be at work with norms seen in the budgeting process at all three organisations, particularly with the norm of supportive working relationships. Figure 7.1, which was developed for this thesis, illustrates this circular process. Although some level of supportive behaviour was initially present, as those involved in budgeting interacted with others in a supportive way the norm was reinforced and strengthened. Further supportive interactions between staff built a new level of supportive behaviour. As staff supported each other through supportive interactions, the new level of supportive behaviour was reinforced. A similar circular process occurred at IT, with regard to the norm of honesty and integrity, as previously outlined in section 5.4.2 of chapter five.

Leana and Van Buren (1999) explore this type of circular relationship in the context of trust. Leana and Van Buren (1999) argue that trust needs to be present for people to work together initially. However, the result of successful collective action encourages more trust, opening the door for further collaborative work. The Productivity Commission (2003) explains a circular relationship in another way, pointing out that the act of placing trust in other people may encourage those who are trusted to act in



*Figure 7:1.* The circular nature of supportive behaviour

S.I. = Supportive Interaction

trustworthy ways. Further, they may be more willing to return the trust shown to them. Putnam (1993) agrees with the circular process, stating that “Stocks of social capital, such as trust, norms, and networks, tend to be self-reinforcing and cumulative” (p. 37). He continues, saying “Successful collaboration in one endeavour” (p. 37) can facilitate future collaboration. The notion of a circular relationship occurring during budgeting underpins one of the main points of this thesis, i.e., that the budgeting process reinforced social capital in each of the three organisations.

The budgeting literature also supports the notion that the budgeting process should take the culture (norms and values) and beliefs of an organisation into consideration. Parker et al. (1989), for example, note that quantitative budgetary controls “must be interwoven with the rich variety of diffuse, qualitative controls that are bound into the norms and values of the organization” (p. 46). They continue by saying that a budgetary control system “must be consistent with the organizational culture in which it is embedded” (Parker et al., 1989, p. 46). In a similar vein, Wilson and Chua (1993) go a step further, stating that “Budgets are also important means of reflecting the ‘culture’ or ‘climate’ of an

organization” (p. 241), adding: “They help to constitute and reinforce prevailing values and beliefs” (p. 242). Wilson and Chua (1993) further support the point that the budgeting process reinforces organisational values (or norms).

With regard to norms identified in the social capital literature, this thesis established the existence of some common ground across the three organisations. This common ground related to norms that were reinforced through the budgeting process. The ways in which these norms were referred to in the budgeting process at each of the three organisations are presented in Table 7.1.

*Table 7:1.* Norms found in the literature that relate to budgeting

<b>Norm</b>	<b>Reference</b>	<b>FS</b>	<b>IT</b>	<b>F&amp;G</b>
Open disclosure of information	Nahapiet and Ghoshal (1998).	✓	✓	✓
Teamwork	Nahapiet and Ghoshal (1998); Pearson, Carr, and Shaw (2008); Subramaniam, Stewart, Ng, and Shulman (2013).	✓	✓	✓
Cooperation	Edwards (2004); Fukuyama, (2001); Nahapiet and Ghoshal (1998).	✓	✓	✓
Transparency	Nahapiet and Ghoshal (1998); Huppi and Seemann (2001).	✓	✓	✓
Respect	Peters and Waterman (1982).	✓	-*	✓

Honesty	Subramaniam, Stewart, Ng, and Shulman (2013).	✓	✓	-*
Trustworthiness	Edwards (2004); Putnam (2000).	✓	-*	-*
Reciprocity	Edwards (2004); Putnam (2000); Stone and Hughes (2002).	-*	-*	✓
Collaboration	Pearson, Carr, and Shaw (2008).	-*	✓	-*

\*These norms were not mentioned during the interviews.

As can be seen in Table 7.1, the open disclosure of information, teamwork, cooperation, and transparency were evident in the budgeting process at all three organisations. Respect for others was reported as being a feature of the budgeting process at FS and F&G. Respect for others was part of the *we value people* norm at IT, and was mentioned by interviewees as being part of the family culture. However, it was not specifically reported as occurring in the budgeting process. It is possible that respecting others did occur in the budgeting process, but that its importance was taken for granted by interviewees. The norm of honesty was reported at FS and IT. Indeed, honesty, along with integrity, was one of the formal values of IT. Honesty was not reported at F&G, but again, it is possible that its importance was overlooked, or taken for granted by interviewees. Trustworthy behaviour was reported as occurring in the budgeting process at only FS, where it was related to the norm of integrity. The absence of interviewees' mentioning trust as a feature of budgeting at IT and F&G was unexpected, given that trust is often stated as being associated with, or a feature of, social capital (Cohen & Prusak, 2001; Leana & Van Buren, 1999; Nahapiet & Ghoshal, 1998; Productivity Commission, 2003; Putnam, 1993, 1995a, 1995b). Whilst the concept of trust in accounting has been

comprehensively reviewed by Baldvinsdottir et al. (2011), there has been little written on trust in the context of budgeting (see section 2.3 of chapter two). It is possible that at IT and F&G, trust was such a prevalent feature of the budgeting process that interviewees took it for granted. Cohen and Prusak (2001) note an old proverb that says: “the fish does not see the water it swims in” (p. 12). In other words, interviewees at IT and F&G may not have been consciously aware of the trust present during budgeting at their organisation.

Reciprocity was reported as occurring in the budgeting process at F&G only. Reciprocity is similar to Nahapiet and Ghoshal's (1998) notions of obligations and expectations; these, however, were not included in the framework of social capital adopted in this thesis (see section 3.3.1.5.2 of chapter three). It is notable that the interviewee at F&G who brought up the topic of reciprocity did so of her own accord. Likewise, collaboration was reported as occurring at only IT, and here again the interviewee brought up the norm of his own accord. In that instance, collaboration was referred to in the context of teamwork.

Some additional norms arising from the interviews were evident at the three organisations. These norms related to the budgeting process, and they were not referred to in the social capital literature. These norms are displayed in Table 7.2.

The norm of supportive working relationships was reported at all three organisations. At FS, it was associated with valuing people, whereas at IT, it was part of the family culture. At F&G, supporting each other was part of the *Play a Part* value. Integrity was a stated value at FS, and at IT integrity was part of the honesty and integrity value. The norms of a family culture, innovation, and opportunism were specific to IT. Likewise, the norm of generosity was evident only at FS.

Table 7:2. Budgeting norms arising from the interviews that are specific to this thesis

<b>Norm</b>	<b>FS</b>	<b>IT</b>	<b>F&amp;G</b>
Supportive working relationships	✓	✓	✓
Integrity	✓	✓	-*
Family culture	-*	✓	-*
Innovation	-*	✓	-*
Opportunism	-*	✓	-*
Generosity	✓	-*	-*

\* These norms were not mentioned during the interviews.

At IT, the norm of a family culture operating in the budgeting process was challenged by the general manager's introduction of a more rigorous approach to budgeting. This clash of cultures arose as the managing director and founder of the company adopted a more relaxed approach to budgeting than the general manager did. However, despite their differing managerial styles, both the managing director and the general manager were working towards the commonly understood goals of profitability and growth. No conflict in managerial styles was evident among the senior managers at FS or F&G.

So far, the discussion on norms and values has referred to the ways in which the budgeting process reinforced organisational norms and values. In each organisation, there was evidence that the norms and values influenced the budgeting process. The influence of social capital on the budgeting process was most clearly seen at FS, where valuing people was directly linked to managers' allocating funds in their budget to enable them to look after volunteers or others on their team. Similarly, at F&G, the

human resources manager allocated money in her budget to fund the tenth birthday celebrations for the F&G site. The norm of opportunism at IT also affected the budgeting process. Its influence was seen in the financial controller's comment that IT should budget so that it had the funds available to be agile and react quickly to opportunities that arose.

This section has considered how the budgeting process reinforced organisational norms and values. For the most part, the budgeting process was found to reinforce organisational norms. However, interviewees did report instances where it was the social norms that influenced the budgeting process. The next section addresses the commonly understood goal(s) in each of the three organisations, and how they influenced the budgeting process.

## **7.2 Budgeting and the Common Goal**

Each of the three organisations had a clearly articulated common goal. There was also a shared understanding among interviewees as to the nature of the common goal. The common or shared goal at each of the three case study organisations is outlined in Table 7.3.

As can be seen from Table 7.3, the shared understanding of the main organisational goal at FS was spiritual, specifically to see the Kingdom of God established on earth and to see people come into and develop a relationship with Jesus. The dominance of a spiritual goal in the budgeting process was also seen at a local church in Sydney, Australia (Irvine, 2005). In a similar way to FS, the spiritual vision for the church was expressed through the budget. As in the case of FS, "the budget was never to take over as an end in itself, but always to be subservient to the vision" (Irvine, 2005, p. 225). In contrast, the common goal at IT and F&G was financial: to grow, and to return a profit. The goal of making money, or adding value for the owners, is expected in a for-profit business (Ross, Thompson, Christensen, Westerfield, & Jordan, 2001). IT differed from F&G in that it sought to find a balance between profitability and the social goal of looking after staff.

Table 7:3. Common goal(s) at the three organisations

Organisation	Main goal	Other goal(s)
Fountain Springs (FS)	To extend the Kingdom of God	To break even
Independent Testing (IT)	To grow and be profitable	To be an excellent place to work for our staff and to have some fun at work
Fun & Games (F&G)	To grow and be profitable	N/A

At F&G, the goal was solely that of maximising wealth. This goal is consistent with finance theory, which states that the goal of the financial manager in a corporation is “to maximise the *current* share value” (Ross et al., 2001, p. 13, authors’ emphasis).

Regardless of the nature of the common goal, in each of the three case study organisations, the shared understanding of the goal(s) formed what this thesis terms a “shared,” or “common view”, an element of the shared context dimension of social capital. In the social capital literature, a shared view is often referred to as a shared vision, purpose, understanding, or goal among those in the organisation (Carr et al., 2011; Chow & Chan, 2008; Inkpen & Tsang, 2005; Mani & Lakhal, 2015; Pearson et al., 2008; Sanchez-Famoso et al., 2013; Sanchez-Famoso et al., 2014; Tantardini & Kroll, 2015). This thesis adopts a notion of a shared view similar to that found in the social capital literature.

At IT and F&G, the budgeting process made the socially created goal of growth and profitability explicit, and put in place a process to achieve the financial goal. This process was most clearly evident at F&G where there

were budget-related KPIs, with financial incentives in place, to motivate managers to achieve their budget targets. There was also an established process for monitoring the budget to inform managers on their progress regarding the achievement of their budget. The influence of the budgeting process on the goals of an organisation is noted by Wilson and Chua (1993), who comment that budgets function to represent, communicate, and define organisational objectives or goals.

One of the features of a shared context seen only at F&G was a shared budgetary language. This shared budgetary language was seen in the use of words such as achieve, drive, and push to describe the role of budgeting in attaining the common financial goal. Those working at F&G were in a defined workplace community, separate from the community outside of F&G. Nahapiet and Ghoshal (1998) use the term “community separation” (p. 258) to refer to such a phenomenon. Within this F&G community, those involved in budgeting understood the shared budgetary language. The social capital literature refers to a shared language or vocabulary (Huppi & Seemann, 2001; Nahapiet & Ghoshal, 1998), or a “unique language” (Pearson et al., 2008, p. 957) as being part of a shared context. Nahapiet and Ghoshal (1998) consider that the development of a common language is aided by community separation. A shared budgetary language was not evident at FS and IT. At FS, however, interviewees used words and terms that originated from their Christian faith. The next section discusses how the budgeting process can unite people in cooperative action to achieve the commonly understood goal.

### **7.3 Budgeting can Bring People Together to Work Cooperatively towards the Common Goal.**

Whilst the three organisations espoused differing goals, they were similar in that, by subordinating their own budgeting goals to pursue collective budgeting goals, managers in each organisation worked cooperatively together to achieve budgeting targets. At all three organisations, interviewees recognised the importance of making decisions that were in the best interest of the organisation. In doing so, managers were

displaying what Leana and Van Buren (1999) term associability. Working together to attain the common goal was most pronounced at F&G where there was a definite focus on attaining the financial goal of meeting budget targets. At FS, interviewees were aware there were limited funds, and were mindful of the needs of other areas. At IT, the notion of viewing the organisation as a whole entity was introduced by the general manager in 2007. This focus on the entity as a whole provided clarity for managers, and helped overcome an inclination towards the building of business silos at divisional level. At all three organisations, the budgeting process encouraged social capital in the form of cooperative behaviour.

At FS and IT, managers' working together for the benefit of the organisation occurred without budget-related bonuses (with the exception of the general manager at IT). Indeed, the managing director at IT was reluctant to introduce budget-related bonuses, as he was concerned such a system would change the budgeting culture. By way of contrast, at F&G managers had a site EBITDA component to their budget-related bonuses that encouraged them to work cooperatively together. Indeed, teamwork was a marked feature of the budgeting process at F&G. By having a site component to the budget-related bonuses, F&G was effectively rewarding cooperative behaviour. (This point is discussed more fully in section 7.5). It appeared that the introduction of the site component to the budget-related bonuses did encourage cooperative behaviour, as prior to its introduction, the budgeting process had been more competitive. The site component also resulted in departments' working together rather than operating in a silo.

A further aspect of budgeting common to all three organisations was the participation of interviewees in setting their budget. At IT, there was some tension among divisional managers around setting budget targets, as they were aware that they "owned" their budget, and were personally responsible for attaining their target. Indeed, some senior managers at IT

explicitly referred to “owning” their budgets.<sup>52</sup> At F&G, the finance manager wanted managers to feel that they owned the business, and that they were part of it. By owning their budget, or feeling as if they were part of the business, managers were internalising and identifying with their budget. Pearson et al. (2008) state that identification occurs when managers “see themselves as part of the collective” (p. 959). They note that “Without strong identification, individuals may be far less willing to cooperate, communicate, and share knowledge and information” (Pearson et al., 2008, p. 959). Parker et al. (1989) indicate that when managers participate in the setting of their budgets, this participation creates a sense of commitment to the organisation’s philosophy and values, and “provide[s] organizational members with shared feelings of working toward goals that they believe in” (p. 20). When managers participate in setting budgeting goals, it is likely they will internalise the budget target as a personal objective (Hofstede, 1968; Parker et al., 1989). This appeared to be the case at IT and F&G.

In the three case study organisations, budgeting was found to be an interdependent process, as it required managers to play their part in the process so that others could complete their budgeting tasks. The notion of mutual interdependence is related to cooperative behaviour, and has also been linked to social capital. Nahapiet and Ghoshal (1998) note that “high levels of social capital usually are developed in contexts characterized by high levels of mutual interdependence” (p. 257).

Clear evidence of sacrificial behaviour was found at FS in the context of budgeting. At FS, interviewees spoke of being prepared to make sacrifices in the budget for their area to accommodate the needs of others. Such behaviour was not recorded by Irvine (2005) in the study of budgeting practices in a local church. Nor was it mentioned by Kluvers (2001) in his exploratory study of budgeting in churches in Melbourne,

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<sup>52</sup> These managers were the Alpha and Beta division managers and the financial controller.

Australia. At IT and F&G, there was evidence to support the occurrence of weaker forms of sacrificial behaviour. At IT, managers were aware some loss-making areas were being subsidised by the more profitable areas. Supportive behaviour was also evident at F&G where departments that were struggling would be supported by managers in more profitable areas. Here supportive managers drove more revenue through their area until the department that was struggling could return to profitability.

At the three organisations, an element of bonding social capital was evident among those involved in the budgeting process. Bonding social capital was most obvious among the leadership team at FS. In this respect, social capital was acting as a “glue” (Anderson & Jack, 2002, p. 207, Huysman & Wulf, 2004, p. 1) that bonded people together. Putnam (2000) takes a similar view, seeing bonding social capital as “a kind of sociological superglue” (p. 23). Newell et al. (2004) point out that bonding social capital “ensures an internal cohesiveness that allows the collective to pursue shared goals” (S. 46). Indeed, Chenhall et al. (2010) note that formal plans and budgets can lead to bonding social capital, as they result in goal clarification. This appeared to be the case among the leadership team at FS.

So far, the ways in which the pursuit of collective budgeting goals by interviewees at the three organisations led to managers’ working cooperatively has been discussed. The notion of cooperative behaviour being linked with social capital is noted in the social capital literature (Cohen & Prusak, 2001; Fukuyama, 2001; Huppi & Seemann, 2001; Nahapiet & Ghoshal, 1998; Productivity Commission, 2003; Putnam, 1993). Nahapiet and Ghoshal (1998) summarise what others have found, saying that “researchers have found social capital to encourage cooperative behaviour” (p. 245). It is surprising that cooperative behaviour occurred in the budgeting process at F&G, where returning a profit was paramount. A focus on profitability is a taken-for-granted assumption of agency theory (Ghoshal, 2005). Agency theory also assumes self-interest (Eisenhardt, 1989a) rather than cooperation. In this respect, agency theory is inadequate in explaining the findings at F&G.

Despite the propensity for cooperation and working towards collective goals, instances where managers played what could be loosely termed “budgeting games” (Collins et al., 1987, p. 29) were found. Table 2.1 in chapter two elucidates these budgeting games. At FS, the People Care team leader played what could be called a game by increasing the amount allocated in her budget for staff development, even when she was unsure if the funds would be needed. Deliberately increasing the amount allocated for an expense on the likelihood that it may or may not be needed during the financial year is not mentioned as one of Collins et al.’s (1987) games. The People Care team leader’s budget was later reduced by the finance administrator.

At IT, budgeting games were played in the context of monitoring the budget. Both the division manager in Beta division and section manager A in Alpha division noticed costs that were wrongly allocated to their budgets. The division manager for Beta division was suspicious that the miscoding was more than an honest mistake, as it appeared to be recurrent. In contrast, section manager A in Alpha division believed that the misallocation of costs to her section while she was away on holiday was a genuine error. On both occasions, the miscoding was investigated further. These instances appeared to be isolated and seemed to be exceptions rather than common practice. In contrast to Collins et al.’s (1987) budgeting games which occurred in the budget preparation process, these games were uncovered during the monitoring of the budget. The next section discusses how budgeting was found to encourage social interaction and foster relationships in the three organisations.

#### **7.4 Budgeting Encourages Social Interaction and Fosters Relationships**

In the three organisations, preparing and monitoring the operating and capital expenditure budgets presented many opportunities for managers to interact, both in formal meetings and informally outside of organised meetings. The effect of the budgeting process on interaction and building relationships was most noticeable at IT and F&G. At IT, the nature of the

budgeting process gave rise to numerous formal and informal meetings between managers during both the process of setting and monitoring the budget. Likewise at F&G, the nature of managers' jobs required them to interact with others when carrying out their budgeting tasks. This interaction was particularly noticeable during the monitoring phase of the budget. The importance of interaction between people in the development of social capital is supported by Nahapiet and Ghoshal (1998). Cohen and Prusak (2001) argue that social capital is created and strengthened during interactions that occur in the context of "real work" (p. 22). Huppi and Seemann (2001) agree, saying: "In its strongest form, social capital is generated around joint, meaningful work" (p. 26). Budgeting and its associated tasks appear to fit the definition of real, joint, meaningful work. In the three case study organisations, the position held by managers usually determined who they would interact with during the course of their budgeting duties. This observation agrees with Knoke (2009), who notes that "Many social capital relations are specified in formal job descriptions that lay out the rights and duties expected of persons who occupy positions in an organizational division of labour" (p. 1694). It appears that at the three organisations, budgeting was a task that required managers to interact.

At FS, the leadership team recognised that the same social norms and beliefs that bonded them together could also work against them. Indeed they accepted that they needed to guard against becoming insular. Adler and Kwon (2002), and Nahapiet and Ghoshal (1998) note that problems may occur in a group with strong social norms and beliefs, if access to sources of ideas and information becomes restricted. FS' leadership team recognised that the close bonds could be a problem. With this end in mind, they brought in three independent team members who attended FS, but were not on the staff, into the leadership team. Surprisingly, FS was the only organisation where the potential for the "dark side" (Putnam, 2000, p. 350) of social capital was reported. This negative, or dark side, of social capital (Adler & Kwon, 2002; Bresnen, Edelman, Newell, Scarbrough, & Swan, 2004; Cohen & Prusak, 2001; Fukuyama, 2001; Gargiulo & Benassi, 1999; Huysman & Wulf, 2004; Nahapiet & Ghoshal, 1998; Putnam, 2000)

occurs when social capital has negative consequences; it was outlined in section 2.4.5 of chapter two. This dark side of social capital was not reported at IT or F&G.

One of the features of budgeting not reported in the literature on church budgeting was the practice of some managers with budgeting responsibilities turning to family and friends for help in preparing and monitoring their budget. This was the case at FS, where both the tots and kids' leader and youth worker one relied on the budgeting skills of family and friends to either prepare and/or monitor their budgets. There appeared to be no need for family or friends to help with budgeting in the local church studied by Irvine (2005), or in the churches studied by Kluvers (2001). At the local church studied by Irvine (2005), the church treasurer usually completed budget requests from lay groups within the church. In Kluvers (2001), the parish priest and the parish accountant were dominant in the budgetary process, with parishioners having little involvement. The practice of involving staff who were not part of the budgeting process in the preparation and monitoring of the budget was not reported at IT or F&G. A further aspect of the budgeting process, which occurred only at FS, was the practice of area leaders consulting with volunteers in their area when preparing their budgets. This practice was not reported in the local church studied by Irvine (2005). Nor was it seen in Kluvers' (2001) survey of churches.

It would seem that the lack of budgeting skills among some of the interviewees at FS was the reason they turned to family and friends for help. The finance manager at FS was aware that some of the managers lacked budgeting skills. In the 2013/2014 budgeting year, he asked each manager with budgeting responsibilities to meet with him in order to outline how to prepare their budget. Similarly, the division manager for Beta division at IT believed some managers with budgeting responsibilities lacked budgeting skills. He referred to the newly appointed division manager for Alpha division who had little business experience and was expected to prepare a budget for his division. Executive management at IT were aware of the problem of staff who were hired for their scientific

skills, and had little business training. With this in mind, IT had hired a management accountant to help business units improve their business acumen. Interviewees at F&G reported no lack of budgeting skills, possibly because most of the interviewees either had business qualifications or had previous budgeting experience.

Preston (1986) notes that organisational processes may be viewed as “an interweave of the social and official” (p. 539). Similarly, in the three case studies, social capital was present in working relationships in both social (informal) and official (formal) networks. IT appeared to be the most social of the three organisations, with an active social club and a dedicated staff room. Cohen and Prusak (2001) remark that physical spaces where staff can meet socially help to build and maintain social capital in an organisation. Nahapiet and Ghoshal (1998) indicate that social events in an organisation are linked to building “dense networks of social relationships” (p. 258). It seemed that the social interactions occurring in the staff room at IT had an indirect effect on interaction and relationship building during the budgeting process through the creation of an appropriable relationship. An appropriable relationship occurs when a relationship built in one setting can be transferred to another setting (Bolino et al., 2002). I had expected that the social events, and particularly the interactions in the staff room, would have had a more direct influence on budgeting at IT. It is possible that all the budget-related interactions occurred during informal and formal budget-related meetings arose during the working day (i.e., in the context of what Cohen and Prusak (2001) call “real work” (p. 22) ), so there was no need to talk about budget-related matters in the staff room. It is also possible that interviewees simply took for granted the importance of the influence of interactions that took place during social events, and in the staff room, on their budgeting duties.

At FS, there was a mix of organised, formal social occasions, for example, the weekly staff meeting, and informal gatherings such as the daily morning tea. An area was set aside for staff to socialise. It appeared that while these social occasions helped to build relationships, they mostly had

an indirect effect on interaction and relationship building during the budgeting process. As budgeting was largely an individual exercise at area leader level, social events helped staff to get to know each other, but did not influence interactions during the preparation of their budget. It appeared that area leaders prepared the budget for their area by themselves, with some input from their volunteer leaders. Social occasions helped the leadership team members to build friendships and trust, both with other members of the leadership team, and with other staff members. These formal and informal social events also helped the recently appointed independent leadership team members to get to know staff members. It appeared that, as with IT, the formal and informal social events helped to build appropriable relationships (Bolino et al., 2002).

There were few organised occasions at F&G that brought all staff together. There was a staff area, but it was not used by managers. There was also an active grapevine. Preston (1986) maintains that informal networks such as the “grapevine” are “highly valued by practicing managers and are intrinsic to many of their managerial and decision making activities” (p. 538). However, these informal networks were not reported as having much effect on interaction and relationship building during budgeting. The finding that social occasions had an indirect or minimal effect on budgeting relationships was unexpected. It is possible that the interviewees overlooked the importance of social aspects when it came to their role in the budgeting process. An alternative explanation is that social capital in the budgeting process was “mainly created and strengthened in the context of real work” (Cohen & Prusak, 2001, p. 22).

When adapting Nahapiet and Ghoshal’s (1998) framework, shared narratives were omitted from the shared context dimension, as they were not considered to be directly relevant to the budgeting process. According to Nahapiet and Ghoshal (1998), shared narratives include myths, stories, and metaphors that are meaningful to those in an organisation. At IT, the impact of the 2008 global financial crisis on the budgeting process, and the company’s profitability, was a story that emerged from the interviews.

There were no budget-related stories reported by interviewees at either FS or F&G.

So far, it appears that budgeting reinforces organisational norms and values, brings people together to work cooperatively towards the common goal, encourages social interaction, and fosters relationships. In this respect, budgeting in this thesis has been found to be a productive and worthwhile process and not an “unnecessary evil” (Hope & Fraser, 1997, p. 22), and a waste of senior executives and financial managers’ time (Hope & Fraser, 2001), as proposed by the beyond budgeting proponents. The notion that budgeting is a social process is not currently included in the extant budgeting literature. The next section outlines this social capital perspective on budgeting.

## **7.5 A Social Capital Perspective on Budgeting**

Both contingency theory and agency theory have been used in the budgeting literature to explain budgeting practices. According to contingency theory, budgeting practices found in one organisation may not be suitable for another organisation. Factors such as the external environment, organisational structure, size, strategy, and the national culture are noted in the literature as reasons practices may differ between organisations (Chenhall, 2003).<sup>53</sup> Covaleski et al. (2003) state that “the contingency-theory models of budgeting argue that there are no universally effective budgeting practices. The choice of effective budgeting practices will depend on the environmental and technological circumstances surrounding a specific organization” (p. 31). In contrast to contingency theory, this thesis has found that, despite the differences in profit orientation, and the industries the three organisations operated in, definite similarities in the budgeting practices were evident. Thus, contingency theory is inadequate in explaining the findings at the three case study organisations.

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<sup>53</sup> Chenhall (2003) reviewed empirical contingency-based research in management control systems, which includes budgeting.

F&G with its goal of maximising profit and its budget-related bonuses is an example of a business to which agency theory might apply. Agency theory assumes agents are self-interested (Eisenhardt, 1989a), self-centred (Ghoshal, 2005), individualistic, and opportunistic (Subramaniam, 2006). These assumptions preclude cooperative behaviour. Yet, at F&G, the site component of the budget-related bonuses encouraged and rewarded cooperative behaviour. It could be argued that by working cooperatively, managers were acting in their own self-interest, working with other managers only so they could attain the site component of their bonus. An alternative explanation is, however, that the cooperative behaviour is contrary to the notion of self-interest (Nahapiet et al., 2005). This explanation is supported by the social nature of the budgeting process found to exist at F&G, where budgeting reinforced organisational norms and values. This social activity is missing from agency theory. In line with this view, agency theory is inadequate in explaining the findings at F&G.

This thesis proposes an alternative perspective for explaining the similarities that were evident in the budgeting process at all three case study organisations. These similarities relate to social aspects of budgeting, and can be explained by social capital theory. This social capital perspective on budgeting emerged from the findings, and proposes that budgeting is a social process in which managers invest their time to foster and encourage social capital. Such an approach has not been found in the extant literature. This social capital perspective takes into consideration organisational norms and values, cooperative behaviour, interaction, and relationship building, all of which are supported by the social capital literature.

In the three organisations, norms provided guidance and boundaries on acceptable behaviour during budgeting. The budgeting process reinforced these norms, as managers behaved in accordance with organisational norms. At the three organisations, the budgeting process concretised the commonly understood goal(s), making it/them definite, and provided a process by which the commonly understood goal(s) could be achieved. In

pursuit of these goals, managers worked together to do what was best for the organisation, often laying aside their own self-interest and desires, and making decisions that were in the best interest of the organisation. The budgeting process also encouraged social interaction and fostered working relationships which were built and strengthened as managers interacted with each other during their budgeting tasks. This social interaction and relationship building promoted cooperation, as managers worked together to realise the organisation's goal(s). The organisational norms also aided cooperative behaviour in the pursuit of the common goal, as they laid a foundation upon which interaction and cooperative behaviour could be built. In addition, the norm of teamwork seen at the three organisations, promoted cooperation.

In summary, the social capital perspective on budgeting proposes that budgeting both builds and reinforces social capital in an organisation. It achieves these ends through people coming together and working cooperatively towards a common goal. The next section summarises the chapter.

## **7.6 Summary**

In this chapter, similarities in the budgeting process at three different organisations were considered. The three organisations all had a set of formal, written organisational values, as well as some informal norms. At FS and IT, there was a close connection between senior staff members and the development of the values. At all three organisations, values were internalised by interviewees, and staff were employed who had values that aligned with organisational values. In each of the three organisations, the budgeting process reinforced the organisational norms and values by means of a circular process. There was also some common ground regarding norms seen in the social capital literature that were reinforced during budgeting. There were instances where norms influenced the budgeting process.

Each organisation had a clearly articulated common goal(s), with a shared understanding among interviewees at each organisation regarding the

nature of the common goal(s). This shared understanding of the goal(s) formed a shared view among interviewees. A shared budgetary language was seen at one organisation, F&G. Managers worked cooperatively in each organisation towards achieving the commonly understood goal.

Another commonality among the three organisations was the participation of interviewees in setting their budgets. At IT and F&G, senior managers internalised their budget and identified with it, which motivated them to achieve the goals they had played a part in setting. There were instances of sacrificial behaviour among interviewees at FS in the context of budgeting. Weaker forms of sacrificial behaviour were also seen at IT and F&G. Bonding social capital was present among some teams and managers in each organisation, but was most obvious among the leadership team at FS. Despite the evidence pointing to cooperative behaviour among managers involved in budgeting in the three organisations, there were some isolated instances at FS and IT where managers played budgeting games.

Much of the interaction and relationship building among those involved in budgeting occurred in the context of real, joint work. This element was most noticeable at IT and F&G. The leadership team at FS was aware that the bonds between them created by shared social norms and beliefs could also work against them. With this thought in mind, they brought on board three independent team members to guard against the leadership team becoming insular. There was no evidence of the dark side of social capital at IT or F&G. At FS, some managers with budgeting responsibilities turned to family and friends for help when preparing their budgets. This practice was not reported at IT or F&G. At all three organisations, formal and informal social occasions appeared to have an indirect effect on the interaction and relationship building that occurred during the budgeting process.

In the three organisations, the budgeting process reinforced organisational norms and values, brought people together to work cooperatively toward the commonly understood goal, and encouraged social interaction and

relationship building. These findings address research question two which asked: “Does the budgeting process influence social capital in an organisation?” However, there were some instances where the norms and values (social capital) influenced the budgeting process, and thus a two-way influence was uncovered.

In the next chapter, the conclusion chapter, the research questions are revisited, and the key findings summarised. The contribution of this thesis to the budgeting and social capital literature is discussed, limitations of the thesis are outlined, and future research opportunities are examined.

## **8. Conclusion**

This thesis has examined how one aspect of the social side of budgeting, social capital, influenced the planning and control of operating and capital expenditure budgets. In this thesis, evidence has been presented indicating that budgeting is more than a rational allocation of resources. Budgets are also linked with group norms, organisational culture, work attitudes, motivation, and participation (Wilson & Chua, 1993). Human behaviour and social relationships in an organisation are influenced by these “softer” aspects of budgeting. This thesis has studied this human, or social side, of the budgeting process.

This chapter concludes the thesis, and is structured in the following way. The next section outlines the research questions and briefly summarises the methodology and method used to answer them. A summary of the key findings is presented in section 8.2. The contribution of this thesis to theory, practice, education, and policy is examined in section 8.3, while section 8.4 discusses limitations of this thesis. Recommendations for future research are covered in section 8.5. Section 8.6 contains a personal note on my PhD journey, and section 8.7 summarises the chapter.

### **8.1 Research Questions, Methodology, and Method**

With the aim of examining the possible contribution that social capital theory can make in explaining the budgeting process, this thesis has investigated the following three research questions:

1. Does social capital influence the budgeting process in an organisation?
2. Does the budgeting process influence social capital in an organisation?
3. Are there any differences in the way social capital manifests itself in the budgeting process across the three case study organisations?

To answer the research questions, an interpretive approach was adopted. Three organisations were used as case studies. Semistructured interviews were used to collect data on each organisation. The interviews were supplemented by documentary evidence obtained from each organisation, its website, and from local newspapers. Interview transcripts were coded, entered into *NVivo*, and thematically analysed. Themes arising from the three organisations were compared in order to reveal similarities and differences. In the section that follows, the key findings originating from the themes identified in each organisation are summarised.

## **8.2 Summary of the Key Findings**

The main finding was that, in all three organisations, budgeting was a social process which can be explained by social capital theory. The key findings are stated explicitly in more detail below. The key findings are that in all three organisations:

1. The budgeting process encouraged social interaction and fostered relationship building. This finding summarises the evidence found in sections 4.7; 5.7; and, 6.6.
2. The budgeting process brought people together to work cooperatively towards achieving a commonly understood organisational goal. Evidence for this finding is located in sections 4.6; 5.6; and, 6.5.
3. The budgeting process reinforced organisational norms and values, and is highlighted by the evidence presented in sections 4.4; 5.4; and, 6.3.
4. Organisational norms and values influenced the budgeting process. This process is outlined in sections 4.4.1; 5.4.3; and, 6.3.2.
5. The interaction and relationship building that occurred during the budgeting process led to managers' working cooperatively toward attaining a commonly understood goal. Evidence for this process is covered in more detail in sections 4.7; 5.7; and, 6.6.
6. The shared organisational norms and values built a foundation for teamwork. In turn, teamwork led to managers' working together to

achieve a commonly understood goal. The evidence for this finding is recorded in sections 4.4; 5.4; and, 6.3.

7. While there were differences between the three organisations regarding their profit-orientation and goals, what they had in common was that budgeting both built and reinforced social capital. This finding was drawn from the evidence presented in sections 4.4 through to 4.7, sections 5.4 to 5.7, and in sections 6.3 to 6.6.

Table 8.1 links the research questions with the key findings outlined above and with the section references in this thesis where each of these findings is documented. As can be seen from Table 8.1, this thesis addresses all three research questions. As is evident from Table 8.1 the process of budgeting's influencing social capital predominated over the process of social capital's influencing the budgeting process.

### **8.3 The Contribution of this Thesis to Theory, Practice, Education, and Policy**

This thesis contributes to the sparse literature on contemporary, case-based, qualitative studies on budgeting practices in the private and voluntary sectors. Prior to the late 1970s, research into budgeting focused on social aspects of the process. These studies were either entirely qualitative (e.g., Argyris, 1952; Lowe & Shaw, 1968; Schiff & Lewin, 1974), or contained a qualitative element (e.g., Hofstede, 1968; Hopwood, 1972; Otley, 1978). Since that time, however, research into budgeting practices has emphasised a quantitative, positivistic approach (e.g., Brownell, 1982a; Lau & Eggleton, 2003; Mia, 1988; Otley & Pierce, 1995). These studies typically used questionnaires to gather data, and analysed the results using statistics. Whilst these quantitative studies provided some information on budgeting practices, they were unable to capture information regarding human, social, and political factors (Briers & Hirst, 1990). As a result, there were calls for in-depth, qualitative case studies (Briers & Hirst, 1990; Noeverman et al., 2005; Otley & Pollanen, 2000) that could investigate these human, social, and political influences on budgeting practices. This thesis has used three qualitative case studies to

*Table 8:1.* Evidence for how the research questions have been addressed in this thesis

<b>Research Question</b>	<b>Finding Number</b>	<b>Thesis Reference</b>
1. Does social capital influence the budgeting process in an organisation?	Finding 4	Section 4.4.1; 5.4.3; 6.3.2
2. Does the budgeting process influence social capital in an organisation?	Finding 1	Section 4.7; 5.7; 6.6
	Finding 2	Section 4.6; 5.6; 6.5
	Finding 3	Section 4.4; 5.4; 6.3
	Finding 5	Section 4.7; 5.7; 6.6
	Finding 6	Section 4.4; 5.4; 6.3
3. Are there any differences in the way social capital manifests itself in the budgeting process across the three case study organisations?	Finding 7	Sections 4.4, 4.5, 4.6, 4.7 Sections 5.4, 5.5, 5.6, 5.7 Sections 6.3, 6.4, 6.5, 6.6

examine these human and social factors that influence the budgeting process.

This thesis begins to fill a gap in the budgeting and social capital literature, as it examines how the budgeting process can influence social capital. In doing so, this thesis provides a new insight into an aspect of budgeting that has not previously been studied. Budgeting was found to foster, strengthen, and reinforce social capital among those involved in the process. The budgeting process achieved these ends through people coming together and working cooperatively towards a shared understanding of the common goal.

This thesis makes a specific contribution to the more specific literature on budgeting in a church. Much of this literature has focused on the notion of a sacred/secular divide (for example, Irvine, 2005; Jacobs 2005; Kluvers, 2001; Parker, 2002). In this thesis, budgeting in a local church is examined from an entirely different perspective from that taken by previous studies. Rather than emphasise a divide, this thesis examines how budgeting practices can be explained through a single perspective – social capital theory. In addition, contemporary budgeting practices are studied in a church whose denomination and country have not been previously researched.

Chenhall et al. (2010, 2012) and Vieira et al. (2013) were the only studies located in the literature that referred to social capital in the context of budgeting. Chenhall et al. (2010) examined the concept of social capital in the context of management control systems (MCS) in an Australian, nongovernment organisation. In doing so they drew on the work of Bourdieu (1986), as well as the concepts of bridging and bonding social capital. They outlined three taxonomies of MCS, two of which included budgeting as a component. Budgets were included in a formal MCS (Chenhall & Morris, 1995), and as an element of Simons' (1995) diagnostic control systems, i.e., one of Simons' (1995) four levers of

control. Chenhall et al. (2012) covered similar ground to that of their 2010 paper. Vieira et al. (2013) adopted a similar approach to Chenhall et al. (2010) in their investigation of the interplay between MCS and social capital in a Vietnamese social enterprise.

This thesis differs from Chenhall et al. (2010) and Vieira et al. (2013). These two papers consider links between MCS and social capital. Budgeting practices are not the focal point of their studies. In Chenhall et al. (2010), budgeting is addressed indirectly as an element of two taxonomies of MCS. Similarly, budgeting is addressed indirectly in Vieira et al. (2013) as an element of Simons' (1995) interactive system. In contrast, this thesis focuses entirely on the budgeting *process*, and the importance of social capital within the budgeting process.

Furthermore, this thesis contributes to the social capital literature by adopting a different framework to Chenhall et al. (2010) and Vieira et al. (2013) in terms of analysing social capital. This thesis uses Nahapiet and Ghoshal's (1998) model of structural, relational, and cognitive social capital to examine budgeting practices in the three organisations studied. In doing so, Nahapiet and Ghoshal's (1998) model of social capital has been adapted and applied to a context not previously studied, i.e., the budgeting process. Nahapiet and Ghoshal's (1998) framework of social capital was developed in the context of the creation and sharing of intellectual capital. In the adapted model used in this thesis, Nahapiet and Ghoshal's (1998) three dimensions have been retained. The cognitive dimension has been renamed a "shared context". In this dimension, a shared view (a shared worldview, or a shared way of thinking and operating) replaced shared narratives. Bridging and bonding social capital (Putnam, 2000) has been included in the structural dimension, as have physical spaces for people to connect (Cohen & Prusak, 2001).

The findings from this thesis are of interest to managers involved in the budgeting process as they highlight the importance of the social side of budgeting in an organisation. This thesis alerts managers to practical steps that can be taken to encourage social capital in an organisation

(refer to sections 4.7; 5.7; 6.6). Educators involved in teaching budgeting can learn from this thesis. The findings could be written up as case studies to be used in teaching, or included in a text on management accounting, to draw students' attention to the notion that budgeting in an organisation can be a social, as much as a technical, exercise.

Furthermore there are implications arising from this thesis for policymakers involved in setting budget-related policy in organisations. The social side of budgeting could be taken into consideration when setting policy, for example, regarding participation in the budgeting process (refer to sections 5.6, 6.5). Policymakers could consider how social aspects of budgeting help managers to work towards a commonly understood goal. The case studies show the need for policymakers to be attentive to incorporating formal organisational values and informal organisational norms into the budgeting process. It is also important that policymakers recognise the potential for social capital to have negative consequences in an organisation. This thesis makes a significant contribution to both the budgeting literature and the social capital literature, as well as a contribution to practice, education, and policy. However, there are some limitations.

#### **8.4 Limitations of this Thesis**

Whilst this thesis proposes a social capital interpretation of budgeting by drawing on social capital theory, there are a number of limitations. There may be an element of self-selection, as the three organisations agreed to participate in the study and chose to allow a PhD student to examine social aspects of their budgeting process. While the findings relate to the three case study organisations, it is possible to infer through theoretical generalisation (Parker & Northcott, 2016) that similar practices may occur in other not-for-profit, private, or public organisations.

This thesis has drawn on Nahapiet and Ghoshal's (1998) framework of social capital. It is possible that a different model of social capital may provide differing results, or add more insight to the topic. However, Nahapiet and Ghoshal's (1998) model was chosen as it allowed social

capital to be studied within an organisation and could easily be applied to the budgeting process. Their framework was comprehensive and grounded in the social capital literature. It included a cognitive dimension which is applicable to a business setting and relevant to budgeting. In addition, Nahapiet and Ghoshal's (1998) framework has been applied empirically in a number of business contexts and has been widely cited.

Central to the interpretive paradigm is the belief that "social reality must be *interpreted* [author's emphasis] by the researcher" (Scapens, 1990, p. 277). Scapens (1990) continues by noting that an "objective" case study does not exist, and raises the issue of researcher bias. According to Smith, Whipp, and Willmott (1988), researchers "carry our own values and worldviews, to a greater or lesser extent, into our research" (p. 99). I acknowledge that in qualitative research, an element of subjectivity is an unavoidable part of the research. I have sought to faithfully capture the reality as perceived by the interviewees and to add to understanding by providing context for those perceptions. To overcome a tendency towards subjectivity, member checking, where the interviewee confirms the interview transcript was a fair record of the interview, was used. Queries regarding an interview were raised with the interviewee soon after the interview. During data analysis, direct quotations were used in preference to relying on a précis or an interpretation of what the interviewee said.

This thesis has relied on interviews for collecting data. Interviews occur at a point in time, and provide a "snap shot" of organisational life. They may not provide the depth of information that can be obtained from a longitudinal case study, where observations are made over an extended time period. In this thesis, interviewees were assured that information provided by them would be confidential. Scapens (1990) notes that maintaining confidentiality "may prevent the researcher from checking the validity of evidence through feedback to the subjects" (p. 277). By assuring confidentiality, I envisaged interviewees would be more open and feel more at ease about sharing information (Ryan et al., 2002). However, I could not openly ask an interviewee to validate information provided by another interviewee to check the validity of evidence. The issue of

validating my interpretations, while assuring confidentiality, was partially overcome by wise and judicious questioning of other interviewees (Scapens, 1990).

I have a personal connection with FS, as, for the last 27 years, I have attended the church. During this time, I have developed an understanding of the history of the church, its values, and its *modus operandi*. It could be argued that my involvement with the church and its leaders could bias the interviews and result in a lack of objectivity. It is difficult to evaluate the effect my on-going relationship with FS had on the interviews. However, it seemed that my prior knowledge of FS resulted in interviewees' sharing information that might not have been divulged to an "outsider".

## **8.5 Recommendations for Future Research**

The social capital interpretation of budgeting presented in this thesis opens the door to a number of research opportunities. A fuller understanding of how the budgeting process influences social capital may be obtained by the inclusion of shared narratives in the shared context dimension. The approach taken in this thesis could be extended to an organisation in the public sector, or extended to differing types of not-for-profit organisations. This thesis could be extended internationally in countries with different histories or cultures. An alternative research method, such as an in-depth case study, may provide further insights that are difficult to obtain through 1 hour interviews with a number of managers at the one organisation. Quantitative methodology could be applied to examine the influence of the budgeting process on social capital in organisations. This thesis ends on a personal note.

## **8.6 My PhD Journey**

This PhD has been a steep learning curve, as prior to undertaking it all my training had been in quantitative methods. My first job involved working as a science technician, where I was trained in the scientific method. My university degrees were in accounting and finance, with finance involving numerical analysis. Teaching undergraduate classes in finance and

maths at a tertiary institution in New Zealand involved a focus on yet more numbers. All this training assumed an objective reality that could be tested, measured, reduced to numbers, and then analysed, often using statistics.

Through personal experience, I found it easy to accept the concept of a subjective reality and the process of seeking to understand the social world from the viewpoint of those under study that are central to the interpretive paradigm. What I was unprepared for was the conflict between my quantitative training and the interpretive approach. I felt the need to decide whether the three case study organisations were high or low in social capital. Social capital researchers have sought to assess the level of social capital in communities (for example, Franke, 2005; Grootaert, Narayan, Nyhan-Jones, & Woolcock, 2004; Onyx & Bullen, 2000; Spellerberg, 2001; Stone, 2001), and perhaps reading these studies as part of my background reading had influenced my thinking more than I initially realised.

It was only when I started writing up the F&G case study that all my chief supervisor's patient, yet persistent, comments about the nature of the interpretive approach started to make sense. I realised the exercise was not about whether a particular organisation was high or low in social capital. What I was interested in was how the budgeting process *influenced* social capital in each of the three case study organisations. Whether or not one could measure if the budgeting process was high or low in social capital was not my concern. My concern was how social capital was expressed during the budgeting process, given the social, political, and historical context of each organisation. Once I finally realised this fact, issues of wanting to quantify social capital became redundant. The section that follows summarises the conclusion chapter.

## **8.7 Summary**

This chapter revisits the research questions and briefly outlines the approach taken to answering them. It summarises the key findings and offers a new, not previously studied, perspective on budgeting. This thesis

contributes to the qualitative literature on budgeting in the private and voluntary sectors, adds to the literature on church budgeting, and extends the social capital literature. This study differs from those of Chenhall et al. (2010), and Vieira et al. (2013), as it studies the influence of the budgeting *process* on social capital. Thus, it reveals implications for managers involved in budgeting and for educators teaching budgeting. Further, policymakers could consider the social side of budgeting, and take into account organisational values and norms. The choice of philosophical paradigm had the potential to be a limiting factor, as did the reliance on interviews to collect data. This thesis opens the door to further research opportunities, as it could be extended to a different type of organisation or extended internationally. An alternative methodology or research method could be applied. The chapter ends on a personal note.

In the introduction to this thesis, I noted that Boland and Pondy (1983) viewed accounting, and by implication budgeting, as a union of natural and rational processes. This thesis has focused on the natural or social aspects of the budgeting process. The importance of the rational aspects of the budgeting process is not negated in this thesis. Rather, this thesis focuses on the natural aspects, providing evidence that in the three organisations studied, budgeting was more a social than a technical process, and was one that can be explained by social capital theory.

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## Appendix 1: Letter requesting access

1 April 2012

Recipient Name

Recipient Organisation

Address line 1

Address line 2

Suburb

City

Dear XXXXX

One of our PhD students, Denise Frost, is examining budgeting practices in the 'real world'. We doubt that textbook illustrations of budgeting correspond to actual practices in organisations. They may reflect the technical side of the budgeting process, but ignore the social aspects.

Denise needs access to several organisations in both the private (for-profit and not-for-profit) and public sector to understand some of the social influences on budgeting practices. She would like to employ a semi-structured interview with a senior executive who oversees the budgets, and meet with those involved in the practical side of putting the budgets together.

I write to ask if you would be willing to assist Denise in her research. The time commitment would not be great, but the comparative results could be novel and enable self-reflection on practices. Any general findings will be made available to you.

Please advise if you can assist, either by letter, or email [frosty@actrix.co.nz](mailto:frosty@actrix.co.nz). We would really appreciate hearing from you.

Regards



Stewart Lawrence

Waikato Management School

The University of Waikato

Private Bag 3105

Hamilton, New Zealand

Stewart Lawrence

Professor in Accounting

Telephone +64 7 838 4620

Facsimile +64 7 838 4332

Email [stewartl@waiikato.ac.nz](mailto:stewartl@waiikato.ac.nz)

[www.management.ac.nz](http://www.management.ac.nz)



**The  
University  
of Waikato**  
*Te Whare Wānanga  
o Waikato*

## Appendix 2: Email granting ethical approval

### Murray & Denise Frost

---

**From:** Amanda Sircombe <amandas@mngt.waikato.ac.nz>  
**Sent:** Friday, 30 April 2010 9:44 a.m.  
**To:** frosty@actrix.co.nz  
**Cc:** Stewart LAWRENCE  
**Subject:** Waikato Management School Ethics Application  
**Attachments:** \_AVG certification\_.txt

Dear Denise

Re: Ethics Application WMS 10/71 - Social capital and the budgeting process: A comparison between profit-orientated and not-for-profit organizations

The above application has been reviewed by a member of the WMS Ethics Committee, and they have granted preliminary approval with recommendations for the project outlined in this application.

The recommendations include:

Add the following details to Information Sheet 1. In the paragraph "Confidentiality": change "withdraw from the research at any time" to align with date given in next sentence: 31 Dec 2011.  
2. Include a statement about participants being able to access a summary of findings  
3. Include a statement about your secure storage of interview transcripts (this is in your Outline of Research Project)

A copy of the approved application will be sent to you shortly

Good luck with your research  
Amanda

---

Amanda Sircombe  
Research Manager  
Waikato Management School  
University of Waikato  
Private Bag 3105, Hamilton 3240, New Zealand

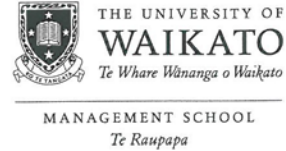
Phone: 64-7-838-4376  
Fax: 64-7-838-4063  
Email: [amandas@mngt.waikato.ac.nz](mailto:amandas@mngt.waikato.ac.nz)

No virus found in this incoming message.  
Checked by AVG - [www.avg.com](http://www.avg.com)  
Version: 9.0.829 / Virus Database: 271.1.1/2950 - Release Date: 06/20/10 05:50:00

## Appendix 3: Letter granting ethical approval

Research Office  
Waikato Management School  
The University of Waikato  
Private Bag 3105  
Hamilton 3240  
New Zealand

Amanda Sircombe  
Research Manager  
Phone +64 7 838 4376  
Fax +64 7 838 4063  
Email [amandas@waikato.ac.nz](mailto:amandas@waikato.ac.nz)  
[www.management.ac.nz](http://www.management.ac.nz)



3<sup>rd</sup> May 2010

Denise Frost  
27 Fox Street  
Hamilton

Dear Denise

*Ethical Application WMS 10/71  
Social Capital and the budgeting process: A comparison between profit-orientated and not for  
profit organizations*

As per my earlier email the above research project, as outlined in your application, has been granted Ethical Approval for Research, by the Waikato Management School Ethics Committee.

Please note: should you make changes to the project outlined in the approved ethics application, you may need to reapply for ethics approval.

Best wishes for your research

Regards,

Amanda Sircombe  
Research Manager

## Appendix 4: Participant information sheet

### ***Participant Information Sheet***

*Waikato Management School*

Te Raupapa



## **Participant Information Sheet**

### **Purpose**

This research, undertaken as part of my doctoral studies, investigates budgeting practices in not-for-profit and profit-orientated organisations.

### **Interviews**

An initial interview will be conducted. Follow-up interview(s) may be required at a later date. Each interview will take a maximum of one hour. Where possible, interviews will be tape-recorded. Consent for the interview to be tape-recorded will be obtained from you prior to the interview. Questions to be covered during the interview will be e-mailed to you prior to the interview. A brief questionnaire to gather background information will also be e-mailed to you before the interview.

### **Storage of interview transcripts**

Data identifying participants, interview transcripts and tapes will be kept in a locked, secure place.

### **Findings**

I will transcribe the interview. You will be sent a copy of the interview transcript. Please read it and contact me if you feel that the transcript is not a fair record of the interview. Material obtained during the interview will be used when writing up my doctoral thesis. Material obtained during the interview may also be used when writing up an academic paper which will be published in an academic journal. The paper may also be presented at an accounting conference. Quotes from the interview may be used when writing up the paper. Your permission to use quoted material will be obtained prior to the publication of the paper. When the paper is published, you will be contacted and asked if you would like to receive a copy of the paper.

### **Confidentiality**

All information obtained will be treated with confidence. If, in the course of the research, you provide information that is sensitive, care will be taken to preserve confidentiality. When writing up my thesis, I will use a pseudonym in the place of

your name, unless you would prefer to be named in person. The name of your organisation will be changed, unless your organisation is comfortable with being named as one of the organisations involved. Information provided by you during the interview will be completely confidential and will not be shared with other members of your organisation. You are free to refuse to answer any questions or to withdraw from the research by 31 December 2013. You will be asked to sign a participation consent form. Should you wish to opt out of the study after the completion of the interview, you can do so by contacting either me or my supervisor by 31 December 2013.

If you would like further information about the interview or the study, my contact details and my supervisor's contact information are outlined below:

Researcher's name and contact information:

Denise Frost, e-mail: [frosty@actrix.co.nz](mailto:frosty@actrix.co.nz)

Supervisor's name and contact information:

Professor Stewart Lawrence, e-mail: [stewartl@waikato.ac.nz](mailto:stewartl@waikato.ac.nz) , Phone 856 2017

## Appendix 5: Participant consent form

### *Consent Form for Participants*

Waikato Management School

Te Raupapa



THE UNIVERSITY OF  
**WAIKATO**  
*Te Whare Wānanga o Waikato*

Social capital and the budgeting process:

A comparison between profit-orientated and not-for-profit organisations

Consent Form for Participants

I have read the Information Sheet for Participants for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study. I agree to provide information to the researchers under the conditions of confidentiality set out on the Information Sheet.

I give permission for the interview(s) to be tape-recorded.

I agree to participate in this study under the conditions set out in the Information Sheet form.

Signed: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Researcher's Name and contact information:

Denise Frost

E-mail: [frosty@actrix.co.nz](mailto:frosty@actrix.co.nz)

Supervisor's Name and contact information:

Professor Stewart Lawrence

E-mail: [stewartl@waikato.ac.nz](mailto:stewartl@waikato.ac.nz) Phone 856 2017

## Appendix 6: Interviewees at Fountain Springs<sup>54</sup>

Job Title	Date of Interview	Length of Interview
Administrative Team Leader, Finance Administrator, Leadership Team Member	25 May 2012 <sup>55</sup>	40 minutes
	22 February 2013	45 minutes
Young Adults' Leader	12 June 2012	40 minutes
Tots and Kids' Leader	24 July 2012	55 minutes
People Care Team Leader, Leadership Team Member, Human Resources	16 August 2012	65 minutes
Families Team Leader, Youth Leader, Leadership Team Member	11 September 2012	40 minutes
Dream Team Leader, Human Resources, PA to Senior Leaders, Internal Communications, Leadership Team Member	25 September 2012	45 minutes

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<sup>54</sup> Fountain Springs is the pseudonym used for the not-for-profit church.

<sup>55</sup> The first interview was to obtain background information on the budgeting process.

Youth Worker One	9 October 2012	60 minutes
Intermediate Leader	15 November 2012	50 minutes
Youth Worker Two	20 November 2012	55 minutes
Independent Team Member One, Leadership Team Member	4 December 2012	65 minutes
Independent Team Member Two, Leadership Team Member	8 February 2013	55 minutes
Independent Team Member Three, Leadership Team Member, Chartered Accountant	17 March 2013	40 minutes
Senior Leader One, Leadership Team Member	21 June 2013	55 minutes
Senior Leader Two, Leadership Team Member	8 August 2013	45 minutes

## Appendix 7: Interviewees at Independent Testing<sup>56</sup>

Job Title	Date of Interview	Length of Interview
General Manager	30 May 2012 <sup>57</sup>	45 minutes
	8 April 2013	55 minutes
Section Manager B, Alpha Division	20 June 2012	55 minutes
Section Manager, Gamma Division	26 June 2012	70 minutes
Corporate Services Manager	9 July 2012	65 minutes
Section Manager A, Alpha Division	30 July 2012	60 minutes
Section Manager, Beta Division	29 August 2012	60 minutes
Senior Client Services Manager, Gamma Division	31 August 2012	60 minutes
Senior Client Services Manager, Beta Division	4 September 2012	60 minutes
Senior Client Services Manager, Alpha Division	7 September 2012	65 minutes

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<sup>56</sup> Independent Testing is the pseudonym used for the private company.

<sup>57</sup> The first interview with the general manager was to obtain background information on the budgeting process.

Division Manager, Gamma Division <sup>58</sup>	16 October 2012	65 minutes
Division Manager, Beta Division	7 November 2012	70 minutes
Division Manager, Alpha Division	7 December 2012	60 minutes
Financial Controller	7 March 2013	60 minutes
Managing Director	10 June 2013	50 minutes
	11 November 2015 <sup>59</sup>	60 minutes
Senior Technologist, Alpha Division	26 June 2013	45 minutes
Senior Technologist, Gamma Division	8 July 2013	45 minutes

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<sup>58</sup> At the time of the interviews, the division manager's job was vacant. I interviewed the previous division manager for Gamma division, who was employed as one of two senior client services managers in Beta division.

<sup>59</sup> This interview was a follow-up interview, undertaken to clarify points raised while writing up the IT findings chapter.

## Appendix 8: Interviewees at Fun and Games<sup>60</sup>

<b>Job Title</b>	<b>Date of interview</b>	<b>Length of Interview</b>
Assistant Accountant	23 August 2012	45 minutes
Finance Manager	27 August 2012 <sup>61</sup>	40 minutes
	10 May 2013 <sup>62</sup>	35 minutes
Human Resources Manager	17 September 2012	45 minutes
Procurement Manager	2 October 2012	55 minutes
Information Technology and Building Manager	2 November 2012 <sup>63</sup>	30 minutes
	29 November 2012	20 minutes
Food and Beverage Manager	29 January 2013	75 minutes

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<sup>60</sup> Fun and Games is the pseudonym used for the public company.

<sup>61</sup> The first interview with the finance manager was to obtain background information on the budgeting process.

<sup>62</sup> In the second interview, there was a new finance manager, the newly promoted assistant accountant. She was interviewed on how social capital influenced the budgeting process.

<sup>63</sup> The first interview with this manager was cut short, and the remaining questions were asked in the second interview.

Head Chef	19 March 2013	50 minutes
Finance Administrator	24 April 2013	45 minutes

## **Appendix 9: Background interview questions**

1. Tell me, in as much detail as you can, how the budget is prepared and approved.
2. What are the challenges you face when preparing the budget and getting it approved?
3. Tell me, in as much detail as you can, how actual revenue and actual expenses are tracked against budgeted revenue and budgeted expenses during the year.
4. What are the challenges you face when monitoring revenue and expenses during the year?
5. How important is the budgeting process in achieving the aims of this organisation?
6. Can you tell me how much budget-related information is made available to those not involved in the budgeting process?
7. Tell me which people (if any) have budget-related KPIs. Are there monetary incentives attached to the KPIs? If so, how are the monetary incentives structured?
8. To help support my findings, I would be grateful for access to:
  - The minutes of any budget-related meetings;
  - Any manual or written document outlining how the budgeting process should proceed;
  - A copy of the most recent budget;
  - A copy of last year's budget showing actuals against budgeted amounts;
  - A copy of the audited financial statements for the last two financial years.

***Thank you for taking the time to be interviewed***

## Appendix 10: Social capital interview questions

1. Tell me about your role in the budgeting process in this organisation.
2. Tell me about your involvement in the budgeting process, step-by-step, from the beginning of the budgeting process, to the end.
3. Starting at the end of your involvement in the budgeting process, could you please retrace your role in the budgeting process backwards, step-by-step, from the end of your involvement to the beginning.
4. In your opinion, is the budgeting process:

Autocratic					Democratic
<u>Top-down</u>					<u>Bottom-up</u>
1	2	3	4	5	

5. In your opinion, is the budgeting process:

<u>Formal</u>					<u>Informal</u>
1	2	3	4	5	

### **Structural**

6. Are there opportunities available in this organisation for people to meet and get to know others from different parts of the organisation? Do these opportunities affect your role in the budgeting process?
7. Is there space(s) set aside for people to meet either formally or informally?
8. In the budgeting process, there are formal reporting channels that outline who supplies information and who information is to be supplied to. Are the formal reporting channels effective in providing you with the information you need for your part in the budgeting process?
9. Are there people outside the formal reporting channels that help you in your role in the budgeting process? Who are they and how do they help?

### **Relational**

10. In the context of your formal relationships in the budgeting process, tell me about the quality of the relationships. Please refer to the list of relationship qualities below as a starting point for telling me about your formal relationships.

11. In the context of your informal relationships in the budgeting process, tell me about the quality of the relationships. Please refer to the list of relationship qualities below as a starting point for telling me about your informal relationships.

- Treating others as equals
- Valuing people
- Respecting people
- Trusting relationships
- Trustworthy behaviour (honesty, integrity, dependable, reliable)
- Helping others out (The Golden Rule)
- Readiness to go the extra mile

12. Do you have any budget-related KPIs (with or without financial incentives)? If so, what effect do your budget-related KPIs have on your formal and informal relationships with your fellow workers in the budgeting process?

13. Does this organisation have any written values or rules of conduct? If so, how do the written values or rules of conduct affect your role in the budgeting process?

14. Does this organisation have any unwritten values or rules of conduct? If so, how do the unwritten values or rules of conduct affect your role in the budgeting process?

15. Does this organisation have a team spirit? How does any team spirit impact your role in the budgeting process?

16. How open and transparent is the sharing of information in this organisation? How open and transparent is the sharing of budget information?

### ***Shared context***

17. The budgeting process often results in departments within an organisation competing with each other for budget resources. How does any competition for budget resources impact workplace values, rules of conduct and any team spirit?

18. In your opinion, does this organisation maintain a good balance between making money and looking after staff?

***Thank you for taking the time to be interviewed.***