

BUDGETING AND CZECH COMPANIES: CONNECTED CONCEPTS OR TWO DIFFERENT WORLDS?

Jiří Dokulil, Ján Dvorský, Boris Popesko

***Abstract:** The presented article is focused on the traditional managerial accounting tool, budgeting, and its application into field of the Czech firms. The study examines the parameters of the budgets in the enterprises operating on the Czech market and investigates factors which influence the usage of the budgeting in these firms. While the first part of this paper summarizes the level of the knowledge in the particular field, the research process is defined in the following step. The main part of the article consists of questionnaire-survey results and hypotheses testing by P-value test.*

***Keywords:** Budgeting, Planning, Terminology, Performance Measurement, Czech Firms.*

***JEL Classification:** M41, M19.*

Introduction

Budgeting has been considered as one of the most widespread managerial accounting tools. Although it is a universal method used in various types of enterprises, the professional literature shows differences in approaching of budgeting across countries. Based on these facts, the aim of this study is to identify what terminology has been used in companies operating in the Czech Republic and what parameters of budgets have been used in these firms. To achieve this target, the authors designed the web-based questionnaire survey.

1 Statement of a problem

The theoretical basis of budgeting was closely described in the monographs and handbooks of managerial accounting (Garrison, Noreen & Brewer, 2014, Crosson & Nedles, 2014, Horngren, 2012). Hilton and Platt (2013) state that budgeting has been the most widely used managerial technique to facilitate planning and management. Budgets are defined as detailed types of business plans (Drury, 2015) or as targets and plans supplemented by financial values (Hanninen, 2013). According to Ostergren and Stensaker (2011), budget is a common accounting tool which is used by organizations to implement strategies.

1.1 Terminology

From above characteristics it has been evident that budgeting is often connected with planning activities. But paradoxically, just as in other areas which are not regulated by legislation, the terms "plan" and "budget" are not used uniformly. Král (2012) claims that differences in definitions of these terms are visible not only in the Czech literature, but also in the Anglo-Saxon and German-speaking countries. His long-term research of the use of these terms brought following results.

Tab. 1: Differences between usage of terms plan and budget

Concept	Anglo-Saxon approach	German approach
Plan	Output of the planning process expressing factual (or natural) objectives and instruments of their achievement.	System of determination of target indicators for enterprise as a whole, traditionally for long-term objectives, but vurrently in shorter time intervals.
Budget	Value expression of objectives.	Determination of value-assigned tasks for internal departments and for particular activities in the enterprise.

Source: (Král, 2012 - adjusted by authors)

When we compare these approaches to use of terms, both of them confirm that the plan is the result of the process of target setting and identifying of tools to achieve it. The difference is evident in defining the concept of budget. The Anglo-Saxon countries define the budget as the value-based plan, but in German-speaking countries the value-based plan is called plan. The concept “budget” is used in German-speaking countries only at the internal level, for costing in centers or departments of the enterprise (Eschenbach, 2000; Král, 2012).

Král (2012) claims that the Czech approach to terminology is close to the German practice. In relation to the past legislation, concept “budget” is in the Czech Republic often seen as a tool for the value management of enterprise units (centers), especially in those areas where we can expect relatively large differences between reality and desirable result. Popesko and Papadaki (2016) define the budget as the plan transformed into monetary units. This definition has been accepted, in small modifications, also by other Czech authors (Fibírová, Šoljaková & Wagner, 2007; Hunčová, 2007; Kotěšovcová & Janoušková, 2007, etc.).

1.2 Budgeting purposes

Budgets serve to a number of useful purposes. According to Drury (2015), this concept includes planning, coordination, communication, motivation, controlling and evaluating of the performance. Blocher and his team (2002) added to this list allocation of resources and recalls that budgets are widely connected with performance measurable. Hansen, Mowen and Heitger (2015) remind the important role of budgeting in the decision-making process. According to survey by Pietrzak (2013) almost 90% of firms use budgeting for planning, coordination of activities or for motivation and evaluation of staffs.

Because budgeting system is basically used for several purposes, some authors emphasize a danger that these purposes may conflict each other (Drury, 2015; Samuelson, 1986). Becker and his team (2016) point out that the period of dynamic change and economic crises has emphasized the benefits of selected budget functions - in particular the allocation of resources. Arnold and Gillerkirch (2015) noted that only recent studies began to more closely analyze interactions between budgeting functions. For example, use of flexible budgets may be beneficial for planning but unproductive for performance evaluation. This statement is confirmed by study of Arnold and Artz (2015) who claim that anticipated target adjustments reduce targets’ performance incentives and their motivational effects.

1.3 Criticism of traditional budgeting systems

Traditional budgeting systems are characterized especially by the annual period of compilation and prediction of basic financial indicators (Neely, Bourne, Adams, 2003). Hope and Fraser (2001, 2003) published two studies which show that traditional budgeting is unsuitable in today's turbulent age. It is confirmed by Ekholm and Wallin (2011) who proved that managers consider the fixed annual budget as being less useful when the environmental uncertainty increases.

Considerable criticism regarding with the fact that traditional budgets are focused on results, not on causes; traditional budgets support outdated stereotypes of thinking; and are disconnect to enterprise strategy (Hansen, Otley & Van der Stede, 2003; Hope & Fraser, 2003; Neely, Bourne & Adams, 2003). Libby and Lindsay (2010) criticized budgets for being-time consuming. Critical view to traditional budgeting is supported by Hope and Fraser (2003) who promotes the KPI (key performance indicators) to use for management control. In their opinion, traditional budgeting should be removed as fundamentally flawed. This view is shared by Neely, Sutcliff and Heyns (2001) who have compiled a list of the twelve most cited weaknesses of traditional budgeting.

1.4 Alternative budgeting systems

Dissatisfaction with existing budgeting procedures created a space for alternative budgeting methods. As examples of modern approaches the authors consider Activity-Based Budgeting (Cooper & Kaplan, 1998), Beyond Budgeting (Hope & Fraser, 2003) and Zero-Based Budgeting (Wetherbe & Montanari, 1981).

Alternatively, the way to eliminate the weaknesses of traditional budgeting is implementation of the multidimensional performance measurement systems (PMS) which is built on a combination of financial and non-financial indicators (Popesko & Papadaki, 2016). The balance of PMS provides a variety of indicators which offer a holistic approach to manage of all organization's components. The non-financial indicators are often related to customer satisfaction (Anderson, Fornell, Lehmann, 1994), product quality (Berman, Wicks, Kotha, Jones, 1999), employee morale, efficiency and utilization of corporate assets, product development (Abdel-Maksound, 2007), preparedness, ability to learn, innovation and the use of information (Dobrovic, Lambovska, Gallo, Timkova, 2018).

1.5 Budgeting practice in the Czech Republic

In the Czech Republic many studies have been published with focus on public budgets (Mansfeldová, 2005, Grebeníček et al., 2013). Budgeting practice in Czech companies were examined by Šoljaková and Fibírová (2008) who researched that 52% of responded companies consider budgets as a traditional significant tool useful for decision making and control. About 11% of Czech companies use budgets in a traditional form, but it is only a formal tool required by financial institutions or owners and it does not play an active role in the organization. Popesko and his team (2015) found out that about 89% responded companies use budget for control purpose. Most firms in the sample planned to improve their budgeting systems in the future and they excluded to abandon them.

Despite these significant findings we must observe that some topics have not been sufficiently covered by existing survey (for example terminology, usage of non-financial indicators in the budget) which opens a space for future researches.

Based on these facts, the aim of this study is to identify what terminology has been used in companies operating in the Czech Republic and to find out the parameters of budgets in these firms comparing with the budgetary parameters in other countries. To achieve this target, the authors designed the web-based questionnaire survey.

2 Methods

2.1 Respondents selection

The targeted group of respondents was determined according to the following criteria: the economic sector where the company operates; the size of the organization (expressed by number of employees and annual turnover). The targeting group of respondents includes organizations from the profitable sector which have an arbitrary number of employees (this number cannot be zero), and in the past period they have reached an annual turnover of more than 1 million in Czech crowns. Based on these conditions, self-employed entrepreneurs were excluded from that sample.

The basis to determine these criteria was the result of pre-research realised in the second half of 2017 where only 6 of 26 small companies (23,8 %) responded that they use a budget. Based on this experience, the authors assumed that research of determinants of budgeting and planning systems selection is useful only in organizations with above-mentioned parameters.

2.2 Data collection

The required data was provided by managers who are employed in economic departments of companies from profit sector (according to the parameters in chapter 2.1). These individuals were addressed by contact information available in the Albertina database. Totally, about 1490 companies were addressed and 136 of them completed the questionnaires (total rate about 9,1 %). Input information was collected from December 2016 to July 2017 via a web-based anonymous questionnaire.

The structure of the respondents - according to the economic sector: manufacturing 55 (40.4%), automotive 7 (5.1%), construction 10 (7.4%), engineering 10 (7.4%), agriculture 7 (5.1%), services 4 (2.9%), energetics 3 (2.2%), others 40 (29.4%).

The structure of the respondents – according to the number of employees – less than 50 employees 33 (24.3%), 50 – 100 employees 39 (28.7%), 100 – 250 employees 40 (29.4%), more than 250 employees 24 (17.6%).

2.3 Hypotheses

The following hypotheses were formulated to achieve the main goal of the article:

H1: There are statistically significant differences in the frequency of the enterprise groups according to the number of employees in relation to the fact whether the enterprise compiles a budget. The size of the enterprise (according to the number of employees) is a statistically significant factor that affects the fact whether the enterprise compiles a budget.

H2: There are statistically significant differences in the frequency of the enterprise groups according to the number of employees in relation to the purpose of budget in the enterprises. The size of the enterprise (according to the number of employees) is a statistically significant factor that affects the number of budgetary purposes in the enterprise.

2.4 Research methods

The knowledge of descriptive statistics (contingency and association tables, descriptive characteristics - relative and cumulative number), needed to application Z-test, was used to evaluate the formulated hypotheses. Subsequently, the authors utilized statistical methods as absolute abundance and simple classification of the statistical character. In the simple sorting method, an attention was focused on the expression of the relative number of enterprises according to the selected statistical features (number of employees in the enterprise, the fact whether the company compiles the budget and purpose of budgeting in the enterprises). From other methods, which have been used in the study, we could mention the classification according to two statistical features and the dependence between qualitative plural statistical features (contingency table, contingency intensity). The contingency intensity was measured by Pearson coefficient of contingency based on a square contingency.

The comparison of the selected groups of enterprises according to the selected statistical features determined the significance of the statistical character and the statistical hypotheses were verified using the above-mentioned tests. The statistical hypotheses were verified at 5% significance level. If the p-value reached a lower level than 0.05, then we have rejected the zero hypothesis on the variability independence.

The Z-score test was used to detect significant statistical differences between the individual changes in the statistics in selected groups of enterprises. The p-value of the standard (standardized) normal distribution has been used to evaluate the Z-score parameters. The conditions for the Z – test realization (normal distribution of the statistical character and a large amount of the sample) was fulfilled. The calculation was carried out through the sophisticated statistical software SPSS Statistics.

3 Research results

3.1 Results of the questionnaire survey

The initial set of questions is focused on terminology and aims to find out the answer to the first part of the study's objective: "to identify what terminology has been used in companies operating in the Czech Republic". The fundamental question was whether companies work with the concept of budget.

Tab. 2: Use of budget

Do you use a term “budget” in your company?	Frequency	Percentage
Yes	88	64.7%
No	48	35.3%

Source: (created by authors)

As it is clear from the results, budgets are compiled in most of the addressed companies. A detailed view confirms that budget is predominantly applied in medium-sized and large companies. The opposite trend was shown in a group of small

businesses. From 32 small companies, which were participated in the survey, only 10 of them use the term budget in their practice (31.25%).

For the companies who answered negatively to this question (48 enterprises), the survey ended and they did not continue to other questions. Totally, 88 companies remained to be a part of the survey.

Tab. 3: Assessment of the statement correctness

Statement	Answer	Frequency	Percentage
The plan is used in your company as a document showing goals and activities leading to goals.	Yes	76	86.4%
	No	12	13.6%
The budget is used in your company as a plan expressed into monetary units.	Yes	79	89.8%
	No	9	10.2%

Source: (created by authors)

The above statements were selected from the literary research. The selection of the statements to the questionnaire was carried out by consultations in companies during the pre-survey.

The first declaration corresponds to the German approach mentioned in the literary research. The research results confirmed a validity of this statement in the Czech economic environment. Companies which disagree with this claim (13.6% of respondents) use the term "plan" in the following senses: the plan is a drawing of project documentation; the plan displays only targets, not activities to achieve them; the plan is used only in financial form; other respondents do not use this term or do not know about its using in their company.

The second statement is rather close to the Anglo-Saxon approach. This definition was confirmed almost by 90% of the respondents operating on the Czech market. The rest of the survey participants use the concept "budget" in alternative forms: the budget is a plan expressed not only in financial but also in natural units; the budget is just one part of the plan; the budget is an amount of funds earmarked to achieve the plan; some respondents use budget only for selected parts of the plan.

The following set of questions deals with budgetary parameters. The authors investigated the purposes of budgets in the enterprises and indicators which are observed in budgets.

Tab. 4: Budgetary indicators

Which indicators are monitored in your company's budget?	Frequency	Percentage
Revenues – costs	79	89.8%
Incomes – expenses	47	53.4%
Assets – liabilities	39	44.3%

Source: (created by authors)

The above results show that the most common practice is a combination of various indicators. Only from seventeen responses it is clear that the respondents use exclusively revenues and costs, seven companies observe only incomes and expenses in the budget and one respondent monitors only assets and liabilities.

Monitoring of financial indicators is a typical feature of traditional budgeting. However, it is necessary to consider that financial indicators are the result of many external factors and it is not possible to clearly identify the causal relationship between

real business performance and financial performance. In the current business environment, we can see cases where the company has increased its productivity, but due to a fall in market prices or a legislative restriction of entire sector, it has achieved worse financial results than in the previous period. This is the reason why many businesses have turned their attention to non-financial performance indicators. The level of usage of these indicators in the enterprises illustrates the following table.

Tab. 5: Use of non-financial indicators

Does your company monitor non-financial quantities in the budget?	Frequency	Percentage
Yes	43	48.9%
No	45	51.1%

Source: (created by authors)

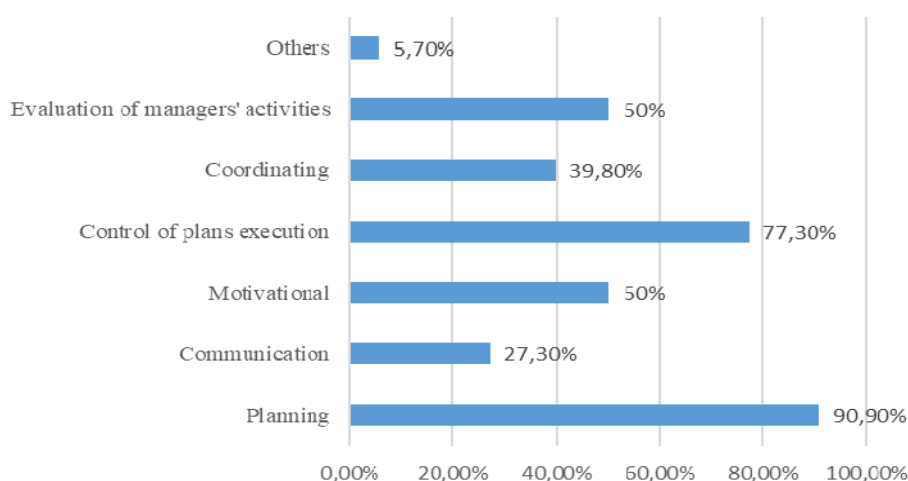
The companies which responded “yes” in the previous question were asked to specify what indicators they use. Their answers are displayed here: Productivity per hour; Average earnings; Utilization of production capacity; Costs of reclamation; Number of scrap in production; Volume of material processing per person; Return on investment; Cover contribution; Profitability and liquidity; Inventory turnover; Time of order process; 10 specific KPI’s. In next responses, the terms "quality" and "efficiency" were appeared, but without any further concretization. In four cases, an empty field was filled in this question.

As can be seen from the answers, enterprises have a very different view to non-financial indicators determination. It is also evident that some of above indicators are incompatible with the usual parameters of non-financial indicators. For example, “average earnings” is a typical financial indicator which is dependent on sales volume and marketing situation. The same objections can be mentioned for indicators “return on investment”, “cover contribution” and primarily for profitability and liquidity which are traditional tools of financial analysis.

These results point to a low level of awareness about the issue of non-financial indicators in the Czech business community. It is quite obvious that the financial quantities have a much longer tradition in the Czech corporate sector.

Another question was focused on the purpose of the budget in the enterprise.

Fig. 1: Purposes of budgeting.



Source: (created by authors)

The spectrum of responses was chosen based on the findings from the literary research. Respondents also could choose "others" to specify budgeting purposes which were not included in the offered answers.

Most respondents use the budget for planning and controlling. However, the results show that the budget can serve for multiple purposes. Half of the respondents uses budget for motivation or evaluation of managers, almost 40% use it for coordination and less than 30% for communication. Other respondents mentioned these purposes of the budget: a basis for price offer; a necessary condition set by grant provider; a basis for the procurement; a plan to get a credit; a tool for authority delegation.

3.2 Hypotheses testing

In the chapter "Methods" two hypotheses have been defined and in this part of the article will be tested. The first hypothesis included the statement that the size of the enterprise (according to the number of employees¹) is a statistically significant factor that affects the fact whether the enterprise compiles a budget. The results of its testing are given below.

Tab. 6: Testing of H1

Number of employees	Do you use a term "budget" in your company?		Z-test
	Yes	No	P-value
Less than 50 employees	11 12.5%	22 45.8%	-4.334 <0.001
50 – 100 employees	27 30.7%	12 25%	0.700 0.484
100 – 250 employees	30 34.1%	10 20.8%	1.622 0.105
More than 250 employees	20 22.7%	4 8.3%	2.104 0.036
Total (%)	88 100%	48 100%	Total: 136 enterprises
Chi-square	20.074		
P-value	< 0.001		

Source: (created by authors)

The results, displayed in Tab. 6, show that there are statistically significant differences between enterprises groups according to the number of employees and the fact whether the enterprises compile the budget. The number of employees is a statistically significant factor and has an impact on budgeting (Chi-sqaure = 20.074; P-value <0.001). Based on these facts, the hypothesis H1 is accepted. There are also significant differences in budgeting between groups of enterprises with number of employees up to 50 (P - value <0.001) and between groups of enterprises with more than 250 employees (P - value = 0.036).

The second hypothesis stated that the size of the enterprise (according to the number of employees) is a statistically significant factor that affects the number of budgetary purposes in the enterprise. The total number of responses about the purposes of

¹ The authors have chosen the number of employees because it is one of three enterprise size indicators according to the European Commission methodology (2003/361/ES). The number of employees can be considered as the easistly available input information to determine the size.

budgeting in the enterprise was 300. The table below shows the structure of respondents according to the size of the enterprise (number of employees) and three most frequent purposes of the company's budgeting (planning, control of plans execution, evaluation of manager's activities) according Fig. 1.

Tab. 7: Testing of H2

Number of employees	Purposes of budgeting			Z-test (P-value)
	Planning (A)	Control of plans execution (B)	Evaluation of managers' activities (C)	A / B A / C B / C
Less than 50 employees	9 11.2%	12 17.6%	5 11.4%	0.267 0.984 0.363
50 – 100 employees	24 30%	19 27.9%	10 22.7%	0.787 0.384 0.615
100 – 250 employees	27 33.8%	24 35.3%	19 43.2%	0.841 0.298 0.401
More than 250 employees	20 25%	13 19.1%	10 22.7%	0.389 0.779 0.646
Total (%)	80 100%	68 100%	44 100%	
Chi-square	3.161			
P-value	0.788			

Source: (created by authors)

The output from Tab. 7 is the finding that there are no statistically significant differences between the groups of enterprises according to the number of employees and the budgetary purpose. The number of employees is not a statistically significant factor and does not affect the purpose of budgeting in enterprises (Chi-square = 3.161; P-value = 0.788). Based on these facts, the hypothesis H2 is reject. There are no significant differences in budgeting functions for selected enterprise groups by number of employees (A / B, A / C, B / C: P – value > 0.05).

Conclusion

The authors wanted to examine some interesting phenomena discussed in the professional literature and among practitioners. Their survey brought the following findings.

The term „budget“ has been predominantly used in medium-sized and large companies. Understanding of a term „plan“ in the Czech Republic has been close to the German approach, while understanding of a concept „budget“ in the Czech Republic has been adequate to the Anglo-Saxon approach.

Companies operating on the Czech market mostly use a combinations of several indicators in the budget. Revenues and costs have been the most common of them. Approximately half of the respondents have declared that they use non-financial indicators in the budget. However, a detailed exploration showed that the perception of non-financial indicators is not uniform in the Czech enterprises and many firms do not

understand the meaning of these indicators. Most respondents have used the budget as a planning and controlling tool.

For a better understanding of a whole issue, the authors were looking for relations between evaluated variables. Therefore, they have compiled two hypotheses with the following results:

H1: The size of the enterprise is a statistically significant factor that affects the fact whether the enterprise compiles a budget. This hypothesis was accepted. H2: The size of the enterprise is a statistically significant factor that affects the number of budgetary purposes in the enterprise. This hypothesis was reject.

As a limiting factor of this research the authors perceive the use of only one type of research method. The advantage of a quantitative survey is a capture of a large sample of respondents, but according to the expert knowledge (for example conclusions of the Trends in Accounting Research Conference 2017, Kaunas), this way does not lead to detailed understanding of the issue. This is a reason why the authoring team plans to expand the information from this research through a qualitative research based on the structured interviews in companies.

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Contact Address

Ing. Jiří Dokulil

Tomas Bata University, Faculty of the Management and Economics,
Department of the Enterprise Economics
Mostní 5139, 760 01 Zlín, Czech Republic
Email: dokulil@utb.cz

Ing. Ján Dvorský, PhD.

Tomas Bata University, Faculty of the Management and Economics,
Department of the Enterprise Economics
Mostní 5139, 760 01 Zlín, Czech Republic
Email: j1dvorsky@utb.cz

doc. Ing. Boris Popesko, Ph.D.

Tomas Bata University, Faculty of the Management and Economics,
Department of the Enterprise Economics
Mostní 5139, 760 01 Zlín, Czech Republic
Email: popesko@utb.cz

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