



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Budgeting for Success

- A Case Study of Jönköping County Council

Bachelor Thesis in Management Accounting

University of Gothenburg
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Abstract

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Title: Budgeting for Success – A Case Study of Jönköping County Council

Background: In the second half of 2008 the financial crisis hit Sweden causing higher unemployment rates and bankrupting many organizations. The Swedish County Councils' income base is primarily based on taxes and government grants. Hence, during a recession, when unemployment rises, the consequence results in reduced tax revenues. County Councils in Sweden have the right to choose how to regulate their own activities. Thus, they decided to tackle the financial crisis in different ways. Several County Councils had to restrain operations, tighten their budgets and some decided the only way to cope with the recession, was to raise taxes. Budgeting plays a key role in the management control of Swedish County Councils and has the main purpose of planning how to effectively allocate resources, in forms of tax revenue and government grants, within the organization.

Research question: How does a successful County Council practice budgeting during a financial crisis?

Method: We conducted a qualitative case study, based on interviews with relevant respondents involved in budgeting in Jönköping County Council and Ryhov County Hospital.

Conclusion: The budgeting in Jönköping County Council was practiced in the same manner as before the crisis. The County Council took a strategic decision to let activities continue as normal due to their stable financial conditions. Additionally, the County Council's strategic decision and their long-term planning, with their interpretation of good economic management, left Ryhov County Hospital unaffected by the financial crisis.

Suggestions for further research: Interesting suggestions for further research is a study of Jönköping County Council in comparison to a County Council that faced strained economic conditions. Furthermore, New Public Management caused an increased pressure on County Councils and the Health Care System to become more efficient. During a crisis, the state provides government grants to the County Councils in order to rescue their financial situation, how will this motivate efficiency in the County Councils?

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1. Introduction

This chapter presents an introduction to budgeting in the context of the public sector and the financial crisis. Thereafter, a problem discussion is presented, followed by our research question.

1.1 Background – Budgeting, the Financial Crisis and Swedish County Councils

Most organizations have goals for the future, a desired state they wish to be in (Ackoff, 1970). In order for an organization to reach this sought after state it, therefore, needs to plan ahead to co-ordinate and control the activities of the company. The need for planning and controlling activities has been emphasized since the 1950's (Greve, 1996), and one form to do so is by using management control. Hofstede (1967) describes management control as being essential in every organization; furthermore, forms of management control include the budget and the budget control process.

Budgeting in an organization can serve many different functions; apart from the purpose of planning and controlling activities, it can further be used for measuring performance and trying to predict the uncertain future in advance (Noland, 2010). However, the budget process is an extensive procedure; it includes several steps and, depending on the organization, it involves individual participation to a various extent (Shim & Siegel, 2008).

In the second half of 2008, the financial crisis reached Sweden. Not only banks were affected by the recession, for instance, the crisis caused higher unemployment rates (Statistiska centralbyrån, 2010). For the public sector, high unemployment rates resulted in strained economic conditions, due to reduced tax revenues (SKL, 2009).

Budgeting is a crucial control tool in the public sector, and holds a central role in Swedish County Councils (Anell, 1990), which are financed by tax revenues and government grants (SKL, 2004). The Swedish County Councils are mainly governed by the Swedish Local Government Act, which requires them to compose a budget for the following fiscal year (SFS 2004:93). In accordance with the Swedish Local Government Act, each County Council has the right to organize their activities in agreement with local circumstances and, thereafter, determine the appropriate tax level (SKL, 2004). Therefore, the contingency of the financial crisis brought about different consequences in the Swedish County Councils. The County Councils had high crisis awareness, considering no one knew how deep the crisis was going to be, and how severely it would affect employment and tax revenues. Hence, most County Councils had to implement short-term solutions, and decided to tighten their budgets and, furthermore, six County Councils decided to handle the crisis by increasing taxes (SKL, 2009; SKL, 2010).

1.2 Problem Discussion

There is a wide range of research regarding budgeting and crisis. However, budgeting during the most recent financial crisis, and especially in relation to County Councils in Sweden, is rather limited. Therefore, we find it important to further study this area.

As mentioned above, the Swedish County Councils are mainly funded by taxes and government grants. However, during a recession, unemployment rises, consequently leading

to reduced tax revenues for the County Councils. The County Councils have the right to choose how to regulate their own activities and decided to handle the financial crisis in different ways. Some County Councils successfully managed to continue their operations without restrains, where other County Councils found it necessary to raise taxes or tighten their budgets. Therefore, it is to be assumed that long-term planning has a large influence, and is necessary in case of unforeseen events, such as a recession. Budgeting in the Swedish County Councils has the key purpose of effectively planning how to allocate resources, in forms of tax revenue and government grants, within the organization. The expected tax income for the upcoming period is allocated in a budget. Hence, it is plausible to speculate that budgeting within the public sector will be subjected to some further trials by the lower inflow of taxes during a financial crisis. As mentioned, some County Councils successfully managed to continue their operations without restrains during the recession. Therefore, we find it interesting to study how a successful County Council managed to continue on as normal, where so many others did not. Thus, the following questions are of importance in this thesis.

1.3 Research Question

The research question of this thesis is:

How does a successful County Council practice budgeting during a financial crisis?

This is operationalized through the following sub-questions:

- **What are the purposes of budgeting?**
- **What types of budgets are utilized?**
- **How is the budget process designed?**

2. Method

In this chapter, we present our research procedure to conduct our thesis, which intends to give an understanding to our reasoning in order to answer the set research question. We describe our research approach and the chosen methods are motivated. In addition, we present our data gathering and explain how and why we compiled the collected material in a certain manner.

2.1 Research Approach

Research can be exercised through either a quantitative or a qualitative approach. A quantitative study is related to statistical analysis and measurements (Bell, 2000), while qualitative research rather refers to gain an understanding of how individuals perceive a given situation. This cannot be achieved through measuring; it instead requires an interpretation of the behavior (Hartman, 2004). In order to answer our research question, we need an insight in the organization's management control to be able to understand their reasoning during the financial crisis. We cannot realize how the organization perceived the situation and why certain decisions were taken by measuring alone. Therefore, we find qualitative research as an appropriate approach instead of the quantitative choice.

In order to answer our research question concerning an organization's use of budgeting during the financial crisis, we have chosen to conduct a case study (Bell, 2000). According to Wallén (1996), a case study facilitates to obtain an in-depth study within the organization; the in-depth study in our thesis focuses on the organization's budgeting. Additionally, our research question aims to study consequences on budgeting during strained financial conditions and, furthermore, get an insight and understanding of the strategic decisions taken in regard to budgeting. This leads a case study to our obvious choice.

Beyond the already mentioned advantages, Bell (2000) describes that a case study does not only refer to retell a given situation, it also provides a possibility to recognize the interplay between different areas. The interplay perspective is of great importance in our thesis, one can assume that budgeting during strained conditions, may have affected the organization's interaction. In addition, a case study allows a focus on one particular occurrence (Bell, 2000). We, therefore, find a case study as a suitable choice, since we can concentrate on one organization and one specific condition.

In the context of a qualitative approach, Sohlberg and Sohlberg (2002) illustrate that interviews usually are applied in order to describe a situation. Interviewees are the primary knowledge source in a case study and choice of respondents should be in accordance with the study's relevant aspects. Hartman (2004) describes how interviews can be structured in various ways and have diverse levels of standardization. As explained earlier, our research question requires an in-depth view of budgeting in the chosen organization, and through interviews we obtain a description of the employees reasoning during the crisis. Therefore, we consider this knowledge source vital to understand budgeting in our study.

2.2 Case Selection

Finding relevant areas and a topic for the thesis may be difficult; however, in our case it became quite obvious. During our three years of studying at the School of Business, Economics and Law at the University of Gothenburg, we have been taught everything there is to know about how to maximize profits in the private sector. Therefore, we found it both interesting and important to get a broader inside view of how the public sector function.

To understand that there are purposes other than pure profit maximization, we decided to study the public sector, or to be more precise, a County Council with additional focus on the health care sector. The most recent financial crisis had different consequences for Swedish County Councils; some had to tighten their budgets or raise taxes, while others managed to withstand the recession without downsizing. A report by SKL (2010) exemplified especially one County Council, which successfully managed to maintain their budget without raising taxes or restraining operations. The successful County Council exemplified was Jönköping County Council. As a consequence of their solid economic position, Jönköping County Council could allow the declining tax revenues, caused by the financial crisis, to weaken their financial result. Moreover, since all Swedish County Councils are governed by the same laws and regulations, this awoke our curiosity to research why Jönköping County Council managed the crisis more successfully than many others. In order to do this, we decided to focus on their budgeting during the recession. Furthermore, we wanted to study the budget process through the whole organization, namely from the County Council level down to the departmental level. In order to achieve this, we in addition decided to concentrate on Ryhov County Hospital.

2.3 Data Gathering

Information can be based on either primary or secondary sources. Primary sources are according to Hartman (2004), sources based on the researchers own study, while secondary sources are studies made of others. In this thesis, we applied both primary and secondary sources. This will be explained more in detail below.

2.3.1 Primary Data Sources

According to Bell (2004), primary sources are obtained during the research process. The primary data sources in our results are collected through interviews, which we earlier indicated as a suitable choice in qualitative research. The interviews have brought us an insight into the organization, which we would not have achieved by only using the printed material that we were provided with.

2.3.2 Secondary Data Sources

Concerning secondary data, our theoretical foundation is based on secondary sources. However, in our results we applied a combination of primary and secondary sources, since we received extensive internal material.

In order to find essential articles for our theoretical foundation, we searched for similar studies and books and thereafter, we verified their references. In addition, we accessed databases via Gothenburg University, typing in words as budgeting, budget process, planning, management control, crisis management etc. The most frequently used databases in our case were Jstor, ScienceDirect and Business Source Premier. Parts of our secondary data sources refer relatively long back in history; however, more recent research still refers to these “old” articles, which is why we also found it necessary to apply the original source. The further the time passed, the more we learned how to find significant information for our thesis.

The secondary data in our results, see Table 1 below, was used in combination with interviews in order to strengthen our primary sources and, thus, also our results. However, received budgets and annual reports are available for the general public, since Jönköping County Council belongs to the public sector. In addition, we received internal material used for other purposes, which brought us a further insight. This internal material is, therefore, also a source in our secondary data. The secondary data in our results is based on the following sources from Jönköping County Council:

TABLE 1
Received Material from Jönköping County Council

Budget	Annual Report	Additional Material
2007	2007	Utredarutbildning 2010 (internal)
2008	2008	
2009	2009	Swedish Local Government Act: SFS 2004:93
2010	2010	
2011	2011	

2.4 Interviews

We have chosen to exercise interviews in order to gather data for our results. The process and our respondents will be described below.

2.4.1 Interview Process

Prior to our interviews, we studied the Swedish Local Government Act and the Local Government Equalization System, in order to fully understand the County Council's influences on management control and not waste time during the questioning.

According to Bell (2000), interviews bring advantages such as flexibility and it is of importance to conduct themes in the questionnaire template, see attached appendix of questionnaire template, where we have chosen to divide the questionnaire into four sections. Bell (2000) declared that the more standardized an interview is, the easier it is to organize the results and analysis in the end. On the other hand, an unstructured interview can provide access to new important information. We decided upon doing semi-structured interviews with open-ended questions, which enabled us to collect more enriched and extended data (Yin, 2011). Additionally, it enabled the interviewees to also bring further inputs.

Apart from taking notes during the interviews, we decided to use recording equipment to make our interviews more complete and accurate, and according to Yin (2011), this enables an avoidance of gaps that commonly occur by only taking notes. In addition, according to Bell (2000), recording facilitates if one later wants to add quotes to the results. Our recordings were immediately backed up after every interview and they were also transcribed the same night, something Yin (2011) emphasizes as important. Additionally, we obtained permission to record from the interviewees and asked for the possibility of further contact in case of any questions. Two of the respondents were contacted again for a short telephone interview and also by e-mail. Concerning telephone interviews, it is important to keep in mind that this can bring disadvantages such as excluded body language. However, this do we not consider as a problem, since the exercised telephone interviews were short containing no complex questions, which, according to us, decreased the risk of misunderstandings.

2.4.2 Respondent Selection

To find relevant respondents in order to answer our research question, we carefully considered our contacts. Respondents were chosen due to their involvement in the budget process, which is in accordance with the selection process of Sohlberg and Sohlberg (2002) saying that interviewees should reflect the study's relevant aspects. Consequently, we decided to perform three in-depth interviews with appropriate personnel at Jönköping County Council and Ryhov County Hospital. Furthermore, seven additional interviews were carried out in order to get a broader perspective. Our interview respondents are summarized in table 2 below.

TABLE 2
Interview Respondents

Interview Respondent	Date 2011	Type	Time Frame	Transcription
Anell, Anders	April 27	Telephone	15 min	No
Bertov, Kristina	April 20	Personal	60 min	Yes
Brorström, Björn	April 27	Telephone	20 min	No
Israelsson, Thomas	April 20	Personal	75 min	Yes
Johansson, Per-Anders	May 2	E-Mail		
Lackström, Pirkko	April 27	Telephone	10 min	Yes
Olsson, Anders	April 27	Telephone	5 min	Yes
Schoultz, Stefan	April 20	Personal	5 min	No
Ståhlberg, Mikael	April 27	Telephone	5 min	Yes
Wallström, Lars	April 20	Personal	60 min	Yes

The coming part will describe why we find the chosen respondents in table 2 relevant for our thesis. Our three main interviews at Jönköping County Council were with the respondents Kristina Bertov, Thomas Israelsson and Lars Wallström.

Kristina Bertov is the Budget Manager in Jönköping County Council and is responsible for keeping planning together and monitoring the process of the budget. Bertov has worked at her position in 10 years and was the obvious choice since she is responsible for the entire budget process, which this thesis aims to study.

Thomas Israelsson works as the Accounting Manager at Jönköping County Council. He has worked at his current position since 2004, but has since 1997 worked with accounting at the County Council. Israelsson was chosen for his financial input, since his role in the budget process is to ensure correct outcomes of the budget and also to make sure that the accounting is in order.

Lars Wallström is the Financial Director at Ryhov County Hospital, the largest department in Jönköping County. Wallström has worked at his position since 1988 and was chosen for an interview due to our curiosity to follow the budget process down to a departmental level, in this case Ryhov County Hospital.

Stefan Schoultz is the Chief Financial Director at Jönköping County Council. Schoultz worked at the County Council during the financial crisis in the 90's and our main purpose for this interview was to see whether a comparison of the two crises could have been an

interesting research perspective or not. However, after our interview, we decided not to go any further with this idea.

Anders Olsson is a Controller at Ryhov County Hospital and works towards the clinics. We were referred to him by Lars Wallström, who found him a suitable respondent due to our research question.

Mikael Ståhlberg works as a Controller at the independent Cleaning and Service Department at Ryhov County Hospital. We were referred to him by Lars Wallström.

Pirkko Lackström, Director of the Radiology Clinic at Ryhov County Hospital, has worked at the clinic since October 2010 and before that she was the Deputy Director. Lackström herself is not involved in the budget process, but our reasoning for this interview was to get her view on how the clinic perceived the financial crisis.

Per-Anders Johansson is The Chair of the County Council Executive Committee. Johansson is the president of the political process concerning the budget in Jönköping County Council. He was contacted in order to follow the budget process to the very top of the hierarchy. Our intention was to accomplish a personal interview. However, he was not available at the moment and his colleague instead asked us to email the questions. Hence, the choice of interview type is explained.

Anders Anell is a Researcher and Professor at Lund University. After reading Anell's dissertation about healthcare related budgeting in Swedish County Councils, we found him an interesting respondent for our study. However, none of his answers are used in our results, since he has not specifically studied budgeting during crisis.

Björn Brorström is a Researcher and has been working as the Deputy President at the University of Borås. We were recommended by Kristina Bertov to read one of his reports concerning the most recent financial crisis in the public sector. After reading the article we decided to make further contact with Brorström.

As implied by the interviewees above, our intentions with the selected respondents were to follow the budget process from start to finish, and further receive input from two external researchers.

2.4.3 Compilation of Interviews

According to Nylén (2005), empirical data in qualitative research is very extensive and, therefore, it cannot be presented in its collected form, the data must be compiled and then selected for the coming results. Our results are based on interviews, but it has also its origin from received internal material. Directly after the interviews, we transcribed the collected data from our recordings. Thereafter, we compiled the interviews and the internal material, found diverse themes and selected what we considered important to include in relation to our research question. Our results first provide a background about influences on the County Council's management control such as laws, to later describe budgeting during the financial crisis.

In addition, according to Nylén (2005), it is crucial for the thesis' reliability how the results are presented. One way to reduce the results length is by exemplifying models and figures. The results should get the reader interested, since it is the basis for the upcoming analysis and conclusions (Nylén, 2005). This is why we constructed our results as a telling story with relevant quotes and figures. We have presented the results in accordance with our theoretical foundation to give the reader a common thread in the thesis. In addition, our analysis is based

on information from our results and the theoretical foundation, but its structure is set against our research question.

2.5 Discussion on Choice of Method

Hartman (2004) clarifies the importance of data meeting the requirements of reliability and validity. He, for instance, defines repetition as a condition for reliability, and refers to validity as to how well the real situation is reflected.

According to Bell (2000), reliability refers to whether an approach would indicate the same results or not at another occasion. Respondents can have been affected by other factors such as media, which will influence their answer. The methods for gathered data must, therefore, be critically reviewed. However, Bell (2000) also means that the reliability is controlled when the questions template is formulated. If someone exercised our interviews at another occasion, it is hard to conclude if the same results would occur. Due to the extended material, we had to select a sample of what we found relevant, which may have influenced our results. On the other hand, all the respondents gave rather similar answers, which indicates a possibility to still achieve comparable results.

Validity, according to Bell (2000), refers to whether a question actually measures what should be measured, and a question is only valid if reliability also exists. In addition, Bell (2000) describes that one can ask friends concerning what is intended to be measured and, thereafter, see if the questions were appropriate for its purpose. This was important for our thesis, and before we decided to send the relevant questions to the respondents, we asked friends and family for their opinion. In addition, one of the respondents explained how he found our questions suitable for the public sector.

It is important to have in mind that a case study and interviews according to Bell (2000), can lead to bias. Information can be hard to verify, and concerning interviews, respondents' answer may have been affected by external factors. Additionally, according to Wallén (1996), a case study brings a complexity to make general conclusions after studying one specific case. However, a lot of our information can be strengthened through printed annual reports and budgets, which are also available for the general public.

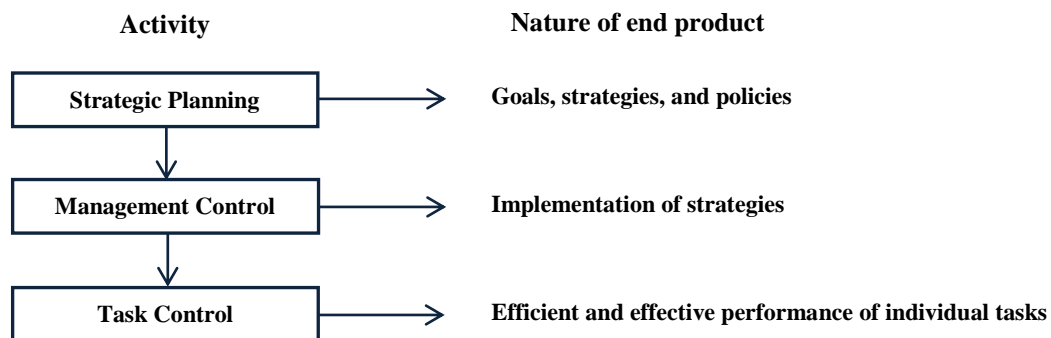
3. Theoretical Foundation

This chapter begins by describing the most essential part in every organization, planning. Thereafter, a review of previous research concerning budgeting and crisis management is presented.

3.1 Planning

Defined by Ackoff (1970, p. 2), “planning is the design of a desired future and of effective ways of bringing it about.” Planning is decision-making in advance (Ackoff, 1970). The foundation of all decision-making is information, good or bad, and acts as a key component for all business processes. However, information is almost never flawless and acting on information will always contain some level of uncertainty (Sizer, 1983). According to Ackoff (1970) most organizations have goals for the future, a desired state they wish to be in. Therefore, organizations need to plan ahead and decide beforehand what actions need to be taken to reach the sought after state, minimizing the risk of not exploiting opportunities by failing to make the right decisions. Planning would not be needed if proper action is taken rapidly without the loss of effectiveness, or if the organization believes that it will reach its desired state through natural occurrences. Ackoff (1970) furthermore, describes planning as constantly having an optimistic and a pessimistic element. Where actions can be taken to maximize the chance of the desired future state to happen but unless action is taken the desired state is unlikely to occur.

FIGURE 1
General Relationships among Planning and Control Functions



Source: Anthony, Dearden & Govindarajan, 1991, p. 11

3.1.1 Strategic Planning

“Strategic planning is the process of deciding on the goals of the organization and the strategies for attaining these goals” (Anthony, Dearden & Govindarajan, 1991, p. 13). Within an organization, strategic planning is at the top focusing on the long run strategy, providing a framework for the more detailed planning that follows in management control in the middle, and task control at the bottom, which is exemplified in figure 1 above (Anthony et al., 1991). Strategic planning is a broad process and involves analyzing the core strategies of the organization, such as the mission and objectives, and how these can best be achieved (Merchant & Van der Stede, 2007), by using rough estimations of the future (Anthony et al., 1991). Furthermore, Anthony et al. (1991) refer to strategic planning as being unsystematic,

due to when unforeseen events arise, that require immediate decisions, the strategic planning takes place; therefore, random decisions are made.

Mintzberg (1994) concluded that strategic planning should instead be named strategic programming since new strategies cannot be created through analysis, but merely be programmed by the outfall of the strategies already in place. First and foremost, the reason to use programmed strategy is to co-ordinate and make certain that everyone works towards the same goals within the organization. Furthermore, Mintzberg (1994) states that the plans emerging from programming, for instance budgets, serve the purpose of communicating media and function as control devices. Plans communicate the future strategy of the organization and control the behavior of departments by stating what is expected of them in order to succeed in accomplishing the future strategy.

3.1.2 Management Control

“Management control is the process by which managers influence other members of the organization to implement the organization’s strategies” (Anthony et al., 1991, p. 10). Management control is an essential tool in every organization. Forms of management control include the budget and the budget control process (Hofstede, 1967). Furthermore, Anthony et al. (1991) describe management control as one of the diverse forms of planning that takes place within an organization. Additionally, Otley (1999) states that management control systems facilitate the task of managing by providing useful information and furthermore, assists organizations in creating and maintaining successful business plans. Thus, there is no perfect management control system for every business. Instead, for that reason, the chosen strategies and objectives of the organization, and the surrounding circumstances play significant roles in management control (Otley, 1999). However, the management control system should not hinder a manager from operating outside the written plan, such as a budget, if a better way of obtaining the goals of the organization occurs (Anthony et al., 1991).

Merchant and Van der Stede (2007) instead refer to management control as Capital Budgeting. Furthermore, concluding this level of planning identifies actions that need to be taken and projects that need to be implemented for the near future, most commonly the next 1-5 years, and how much they will cost. In addition, more extensive planning is used at this level than in the strategic one; however, the strategic plan of the organization must be followed.

3.1.3 Task Control

“Task control is the process of assuring that specified tasks are carried out effectively and efficiently” (Anthony et al., p. 15 1991). Task control is a type of planning that takes place at the lowest levels of the organization, and it controls the actions of individuals. The data used for task control is more current and accurate than the one used for strategic planning (Anthony et al., 1991).

Merchant and Van der Stede (2007) label the actions that have taken place at the lowest level of the organizational hierarchy as Operational Budgeting, further, describing it as an annual process that involves the creation of the budget for the next year. Ax, Johansson and Kullvén (2007) describe task control as involving the planning of the organization’s day to day actions. The decisions taken in the task control process are based on, and adjusted to the agreements made in the management control process. Moreover, they explain that budgeting can be seen as a link between the strategic planning and task control in the organization.

Amey (1979) emphasizes that budgets can be seen as the most essential part in business planning. Often, the same budget is used for both planning and controlling. Additionally, according to Hofstede (1967, p. 22), “there is a common agreement that budgets are a management tool to facilitate the management task of leading a business towards its goals.”

3.2 Budgeting

Running a business without an annual budget is like driving through an unfamiliar city without a road map. The driver might find a way back home but is also very likely to waste time (not to mention gas and money) traveling down some blind alleys (Gerber, 2005, p. 550)

3.2.1 Budgeting in Private and Public Organizations

Budgeting is a generic term applied to different situations in order to formulate future intentions into numbers, often but not necessarily, in monetary terms. Budgeting is according to Anell (1990) a term hard to define, since it was developed by various authors during the years. However, depending on the situation, budgeting implicates diverse meanings in organizations. Budgeting has different roles, such as enabling decentralization and separation of responsibilities (Anell, 1990; Frenckner, 1953).

Budgeting may also be formulated differently depending on whether the organization is public or private. Wildavsky (1986) studied public organizations, which indicated the importance of budgeting as a control tool for politicians. Politicians reflect individuals' preferences through budgeting when they for instance allocate resources to different areas. Therefore, budgeting plays a central role in a political perspective (Anell, 1990; Wildavsky, 1986).

In addition, an earlier study by Wildavsky (1975) shows that conflicts can occur during budgeting in the public sector, since their revenues are based on taxes. The study illustrates municipal budgets, where it is explained that municipalities' revenues must either exceed or equal costs. This indicates a requirement of at least a balanced budget. Therefore, problems experienced in the public sector refer to the acceptance of a balanced budget and avoidance of tax increases (Wildavsky, 1975; Crecine, 1969).

Moreover, Anell (1990) studied the public sector in Sweden, which illustrated budgeting in the Swedish county councils in connection to health care. He argued that budget related organizations depending on public or private characteristics may have differences in their budgeting. However, a study done by Williams, Macintosh and Moore (1990) showed nonetheless that managers' budgetary behavior is rather similar in the public and private sector. Therefore, the coming parts in this essay will reflect different important factors, which relate to the overall budgeting.

3.3 Purposes of Budgeting

This section describes the different purposes of budgeting within an organization. Many of the purposes appear to go hand in hand, but will here be described separately to clarify each function.

3.3.1 Planning

As a part of the annual budgeting process, the major planning decisions in the long-term plan are refined and concretized. This is done by the managers who are obligated to produce detailed strategies for the carrying out of the long-term plan. Managers need to consider the future and plan ahead. The planning-part of the budget process inspires leaders to deal with potential problems ahead of time and it minimizes the risk of hasty unconsidered decisions (Drury, 2000).

3.3.2 Co-ordination

According to Mintzberg (1994) budgets serve as co-ordination tools in the organization and making sure that everyone works in the best interest of the company. Without a mutual plan, there is a risk that actions and decisions made by managers in different parts of the organization will not work necessarily towards the same goal. The budget, therefore, serves as a guide and obliges managers to reconcile differences with other departments so that all parts of the organization together strive towards the same goal (Drury, 2000).

3.3.3 Communication

Budgets serve the purpose of communicating the future strategy of the organization (Mintzberg, 1994). In order to have a fully functional organization there need to be clear lines of communication between all parts of the business. First and foremost, to keep all the departments fully up to date of the organization's plans, policies and restrictions. In addition, the communication through the budget process should lead to a clear understanding of what is expected of everyone and what part they play in accomplishing the yearly budget (Drury, 2000).

3.3.4 Motivation

In order to increase the motivation of managers to work in the best interest of the organization and strive towards achieving its goals, the budget can act as an instrument for influencing managerial performance (Drury, 2000). Furthermore, studies show that active participation in the budget setting process will result in greater individual commitment to the company and its goals. This increased commitment will thus lead to a higher personal motivation to achieve the goals of the organization (Searfoss & Monczka, 1973; Locke, 1966). Moreover, Searfoss and Monczka (1973) found in their study that even perceived participation in the process led to higher motivation. In addition, Locke (1968) found that higher set goals provided a challenge and led to higher performance. However, Kennedy and Dugdale (1999) conclude that setting very high budget goals may not lead to optimal performance and motivation.

3.3.5 Control

In many organizations, the behavior of employees needs to be directed and sometimes restricted. This type of control is often established through the budgetary system in businesses

(Dunbar, 1971; Sord & Welsch, 1958; Tannenbaum, 1968). The budget works as a tool for managers and facilitates their responsibility of managing and controlling the activities in the organization (Drury, 2000). The control process of the budget includes the restriction of spending through the allocation process since the budgeted manager will only be authorized with a certain level of expenditures. In addition, the budget can be utilized to determine specific goals of the organization such as the reduction of expenses (Dunbar, 1971). According to Mintzberg (1994), budgets function as control devices by controlling the behavior of the departments by stating what is expected of them in order to succeed in accomplishing the future strategy of the organization.

3.3.6 Performance Evaluation

The budget can also be used as a standard for measuring performance (Hofstede, 1967). The accomplishment of a manager is often assessed through his or her ability to achieve the goals of the budget and stay within set limits. Furthermore, the budget can serve as an instrument for managers to evaluate how well they perform in the role of managing the organization by comparing his or her capability to meet the goals they previously assisted in setting (Drury, 2000).

Fisher, Maines, Peffer and Spinkle (2002) found in their study that using the same budget for both resource allocation and performance evaluation led to higher motivation among subordinates and eliminated budget slack. Furthermore, they emphasize the existence of a synergy between resource allocation and performance evaluation, and moreover suggest “that by designing the internal information system to reduce information asymmetry among subordinates, the firm can increase subordinates’ incentives to provide more accurate budgets” (Fisher et al., 2002, p. 848).

3.4 Types of Budgets

This section describes different types of budgets in an organization, and how they interact with one another. Focus is on the master budget, the budgeted income statement, the cash budget and the budgeted balance sheet.

3.4.1 Master Budget

Several synonymous words seem to be applicable to the master budget and its sub budgets. The annual profit plan consists of a projected income statement, a projected balance sheet and supporting sub-budgets as for instance the cash budget (Livingstone, 1975; Welsch, 1971). Instead, Drury (2000) termed the annual profit plan master budget, which is primarily constructed of the budgeted profit and loss account, which corresponds to the projected income statement mentioned above, the budgeted balance sheet and the cash budget. However, Shim and Siegel (2008) term the types of budgets similarly and apply the following terms, viz. master budget consisting of pro forma income statement, pro forma balance sheet and the cash budget.

How often budgets are prepared usually differs from an annual to a quarterly basis. Budgets usually demonstrate an overview of the organization’s imminent future and shows expected revenues and costs for a specified period of time (Shim & Siegel, 2008).

Two main classifications can be distinguished within the budget, the operating and the financial budget. The operating budget involves the mentioned profit and loss account, also as mentioned called the income statement. Additionally, the sales budget and production budget are, among others, included within this category. The financial budget instead refers to the budgeted balance sheet and the cash budget (Shim & Siegel, 2008).

3.4.2 Budgeted Income Statement

The budgeted income statement is fundamental in several organizations (Ax et al., 2007). The income statement exemplifies financial revenues and costs for a specified period, usually quarters or months (Shim & Siegel, 2008). Another synonymous word in common use for income statement is profit budget. However, Hofstede (1981) suggests that the word “profit” is not appropriate in association with neither the public sector nor non-profit activities.

3.4.3 Cash Budget

The cash budget demonstrates a planned period’s expected cash in- and outflows. The cash budget is an important tool since possible needs or shortages can be realized in time (Greve, 1996). The tool brings the ability for organizations to control whether the amount of cash required for different operations is adequate or not. Through setting a higher amount than least required, a space for miscalculations can be realized (Drury, 2000).

3.4.4 Budgeted Balance Sheet

The budgeted balance sheet is constructed when there is a set income statement and cash budget (Greve, 1996). The budgeted balance sheet from end of last period is adjusted due to information from the income statement and cash budget. Thus, this results in a new budgeted balance sheet and the activity stresses the interaction of the three mentioned budget types. Expected assets, liabilities and equity are shown in the budgeted balance sheet which is a source for various key ratios (Shim & Siegel, 2008).

3.5 The Budget Process

This section describes the budget process. In addition, an explanation will be given of the different steps and factors that must be taken into consideration in order to achieve a successful budget process.

3.5.1 Purposes with the Process

According to Hofstede (1967), management control is indispensable in an organization. One form of management control in general is the budget process. The budget process is a collaboration of rules that strongly influences the decision-making process that ends in a budget (Ehrhart, Gardner, Von Hagen & Keser, 2007). However, Drury (2000) explains that for the budget process to work properly, there is great need for administration in forms of procedures and suitable staff, such as a budget committee and accounting staff.

The budget process has several objectives and works as a source to establish and forward organizational goals (Shim & Siegel, 2008). According to Livingstone (1975), the budget process is fundamental for resource allocation, where managers consider different alternatives for allocating resources, consequently, either revising or agreeing upon the alternatives. The

budget should according to White and Broskowski (1980), be reviewed in order to discover variances and, further, implement actions to counter future variances. In addition, Shim and Siegel (2008) describe the importance to examine the actual situation of both the environment and the organization, in order to achieve a rather accurate budget.

3.5.2 Different Stages in the Process

The budget process includes several stages in order to accomplish a complete budget, often referred to as a master budget. Time is an important element in order to perform the three steps of the budgets, viz. prepare, revise and monitor (Kennedy & Dugdale, 1999). Planning and evaluation of performance are also important concerning the process (Cress & Pettijohn, 1985). Therefore, planning should be seen as integrated in the budget process. It is essential to understand that the budget process is an annually ongoing cycle in organizations and changes in one phase can lead to consequences in the next one (White & Broskowski, 1980).

Studies show diverse numbers of steps in the budget process. Shim and Siegel (2008), for instance, exemplifies the budget process in six steps. However, according to a relatively recent study by Kennedy and Dugdale (1999) the budget process should undergo nine stages. The following nine steps are described (Kennedy & Dugdale, 1999, p. 22):

1. Establish the corporate mission and objectives.
2. Set environmental assumptions; hence determine the limiting factor- usually sales.
3. Set the budget for the function constrained by the limiting factor.
4. Set other budgets, co-ordinating with the limiting factor and the corporate objectives.
5. Synthesise all budgets to produce a master budget.
6. Review the master budget in the light of corporate objectives.
7. Accept the master budget or, if the master budget does not meet corporate objectives, go back to 2 and repeat the process until the master budget is acceptable.
8. Monitor actual results against budgeted results and report variances.
9. As a result of variances, either (i) take corrective action to eliminate variances or (ii) revise the master and subsidiary budgets to accommodate the variance.

Additionally, Kliman (1990) suggests five main criteria in order to achieve a successful budget process, which can be applied in any context. The first criterion includes production of a budget. This step is not explained in more detail since everyone has their own perception about budgets. Secondly, the budget should be finished on time. Moreover, a successful budget process should also show policies in accordance with decision-makers, since the author defines the budget process as a decision-making process. In the context of decision-making, an article by Ehrhart et al. (2007) also relates the budget process to this third criterion. However, Kliman (1990) continues that the budget process should also be precise since a budget based on miscalculations can never lead to success and the last fifth criterion implies the justifiability of a budget proposal.

3.5.3 Participation in the Process

If participation and access to information can take place easily, the budget process is seen as open (Shick, 1985; Pfeffer, 1977). The participation throughout the budget construction takes

place in different ways and to a varied extent. Some studies show that participation interest in the budget process decreases if resources are not scarce and departments more or less can get everything (Schick, 1985; Cameron & Whetten, 1983).

The two methods applied when formatting the budget are either top-down budgeting, bottom-up budgeting or a combination of the two methods. Top-down budgeting is more strategic in comparison to the operational bottom-up choice (Henderson, 1997).

3.5.4 Top-Down Approach

There are advantages and disadvantages with both the top-down and bottom-up method, but both approaches are of importance. The top-down approach set boundaries and involves fewer employees due to its centralization in the organization (Bozeman & Straussman, 1982). The top-down approach is a method where long-term objectives are determined and the approach is a suitable choice if co-ordination between divisions is significant. However, the method could also bring disadvantages such as lack of knowledge since managers at the central level are not as aware of the operational conditions and needs as the operational manager might be (Shim & Siegel, 2008). Kim and Park (2006) suggest in their study that a top-down approach not always is preferable to a bottom-up approach even if the approach is less time-consuming. External influences must be considered in regard to the approach choice.

3.5.5 Bottom-Up Approach

The bottom-up approach involves a higher number of people and the budgeting causes a need for negotiation, which later can result in predictable outcomes (Bozeman & Straussman, 1982). The bottom-up approach is constructed from the operational level (Piercy, 1987); therefore, the approach is very time-consuming (Kim & Park, 2006). However, problems with the approach could be a risk of failure due to the strategic objectives of the organization. Operational managers have a tendency to focus on their division's best interest and not consider the entire organization (Shim & Siegel, 2008).

Usually, large organizations combine the two approaches. Studies have shown how the two mentioned approaches, top-down and bottom-up, in a large scale, are harmonizing and complementing one another (Shim & Siegel, 2008; Kim & Park, 2006). The most common choice of international organizations was the top-down approach. The result of the study by Ehrhart et al. (2007) was based on this approach, researching the historical perspective saying top-down budgeting results in better outcomes for the organization, in other words, referring to a smaller budget. However, the implication did not support the historical perspective of top-down budgeting causing less spending. Instead, the result suggested that limited budgets depend on participants' preferences (Ehrhart et al., 2007). The personality of the individuals strongly influence if performance will lead to better results or not; therefore, participation in itself is not a way to assume that the budget process will be more successful (see e.g. Dunbar, 1971; Vroom, 1964; Hofstede, 1967).

3.5.6 Monitoring the Budget

Additionally, as can be seen by the nine steps Kennedy and Dugdale (1999) exemplified above, it is of importance to monitor the budgets. This can be done in various ways.

The budget can serve as a tool in detecting forthcoming problems the organization might face. In order for the budget to work effectively it needs to be based on accurate measurements.

Different factors outside of the organization's control, such as politics, laws and financial problems, may cause inaccurate budget estimates. Once the budget is created it functions as a plan for the future operations of the organization and at the end of the budgeting period it serves as a device for managers to evaluate their own performance by comparing the actual outcome to the budgeted figures. By evaluating the variances between the budgeted costs/revenues and the real costs/revenues, the organization can determine whether the difference is out of the organization's control or if action needs to be taken to correct issues within the company (Shim & Siegel, 2008).

White and Broskowski (1980) describe how monthly reports are significant in order to monitor costs and incomes. The monthly report puts budgeted results against actual results and is an important report system in order to lead the organization towards set objectives. In the context of monthly reports, some variances usually occur when comparing the actual outcome to planning. If so, corrective actions must be implemented. This can either be done through reducing costs or increasing revenues. The authors stress that a review should also take place on a quarterly basis, which gives time for adjustments (White & Broskowski, 1980). Also Shim and Siegel (2008) suggest that budgets should be continuously monitored and provide feedback.

Additionally, budgets can be reviewed depending on whether they are static, flexible or continuous budgets. The static budget, also referred to as fixed, is common in stable organizations. The word static indicates its reduced flexibility for adjustments (Shim & Siegel, 2008). Brownell and Merchant (1990) stress that static budgets should only be used in situations where there is low process automation and therefore, static budgeting may be more suitable in labor-based production. However, the flexible budget is the most used one. In contrast to the static budget, adjustment for changes is possible. The budget is a good choice when volume changes are limited (Shim & Siegel, 2008). According to the study by Brownell and Merchant (1990, p. 390), there is "a stronger positive relation between flexible budgeting and departmental performance where process automation is high than where it is low." Several organizations have chosen to adapt a rolling budget instead of the fixed budget. This budget is regularly revised and has the advantage to result in continuous planning (Shim & Siegel, 2008).

3.6 Criticism of Budgeting

In almost all businesses, the budget is seen as the basis of the management control process. However, many experts criticize the use of budgeting for evaluating performance and planning for the future (Hansen, Otley & Van de Steede, 2003).

First and foremost, budgeting is a very time-consuming process and critics claim the budget adds little value compared to the efforts put into it. Wallander (1999) argues that budgeting makes it more difficult for organizations to adjust to breaks in the budget curves. Deviations from the curves are often underestimated by managers and seen simply as accidental since they tend to put great belief in the budget. Therefore, budgeting companies might not respond properly to new circumstances, instead the budget may impede necessary modifications.

Furthermore, budgeting has been criticized for fostering myopic behavior by making managers focus too much on keeping their own department's budget. Consequently, this induces dysfunctional game play by managers making egotistic decisions instead of looking out for the best interest of the organization as a whole (Hansen et al., 2003; Hofstede, 1967).

In addition, critics claim the usage of budgeting will induce an internal political game were managers, instead of showing a surplus, will try to spend the entire budget in fear of receiving a smaller budget the following period (Ax et al., 2007).

3.7 Crisis Management

The word crisis is easily applied and it is defined differently in various contexts. The word usually relates to unforeseen and undesirable situations, which lead to uncertainty (Dayton, Boin, Mitroff, Alpaslan, Green, Kouzmin & Jarman, 2004; Rosenthal, Boin & Comfort, 2001; Stern & Sundelius, 2002). Crisis can be seen from two perspectives, an operational perspective and a political-symbolic perspective. The operational perspective relates to the management of crisis, while the political-symbolic perspective instead refers to how individuals understand crisis. However, both the political-symbolic and the operational perspective define crisis as a subjective phenomenon; consequently, a crisis only occurs if the individuals in question perceive it as one (Dayton et al., 2004; 't Hart & Boin, 2001). Additionally, operational obstacles in crisis management are usually associated with preparation and coping with crisis. This deals with how organizations prepare for the unexpected that may affect resources, support and successful implementation of decisions (Dayton et al., 2004).

Furthermore, Hermann defines a crisis as having three elements (1972, p. 13) “a crisis is a situation that (1) threatens high-priority goals of the decision-making unit, (2) restricts the amount of time available for response before the decision is transformed, and (3) surprises the members of the decision-making unit by its occurrence” (Ezzamel & Bourn, 1990).

During a crisis there tend to be a decline in communication channels in the organization due to the centralization of decision-making process, increasing conflicts within the organization and larger time pressure. Consequently, the reduced amount of communication channels combined with an increased amount of pursuit for information with direct bearing on the crisis may lead to false information being given and hence, wrong decisions being made (Ezzamel & Bourn, 1990; Galbraith, 1972).

Public leadership under crisis has been exemplified as something impossible. It is described through different stages, for example, as to how managing during a crisis is obstructed by the citizens' expectations. Citizens are inclined to assume that when crisis occurs, a rescue by the state will take place (Boin & 't Hart, 2003). Further, the difficulty of managing crisis is explained by Boin and 't Hart (2003, p. 545) as:

Organizational chaos, media pressure, stress and inaccurate information are but a few factors that make it very hard for crisis leaders to make sound decisions.

Additionally, it is confirmed that public criticisms occur if managers do not handle a crisis situation in the right manner, such as taking an incorrect strategic political decision or not declaring a promising action in order to protect the public when crisis occurs (Boin & 't Hart, 2003). Also, Hunt (2010) argues that lack of management in the public sector due to crisis can lead to reduced political credibility.

3.7.1 Budgeting under crisis

Schick (2009) refers to all OECD countries as having automatic stabilizers that respond to changes in the economic conditions and act as early warning signals for a financial crisis, by for example alerting the government that the budget approved for the following year might differ. During good years when budget surplus occur, the government can for instance use the extra money to increase programs in society or reduce taxes. During a recession however, the government may have to take action by restraining budget policies.

According to Schick (2009) budgeting under a financial crisis has a tendency to be improvised and fit current needs, by for example bypassing normal rules and procedures. In addition, the budget process tends to be more centralized and shift from a bottom-up approach to a top-down approach. When there is an economic crisis, managers often feel compelled to act immediately, and by doing so they can bypass or disable the entire budget process. However, acting rapidly can have further effects long after the crisis has passed, on for example the administrative practices. Additionally, Schick (2009) stresses that money injected during a financial crisis might not only lead to a good outcome, but can later after the crisis has passes, be used as maneuvers to avoid budget controls.

4. Results: The Case of Jönköping County Council

The first section of our results is a general introduction of Jönköping County Council and Ryhov County Hospital. Thereafter, a description of the Swedish Local Government Act and the Equalization System will be made, since these are the foundation of understanding budgeting within Swedish County Councils. In addition, we show an overall description of the management control in Jönköping County Council to facilitate the comprehension of the County's objectives with budgeting. The final three sections of our results will be structured to reflect our theoretical foundation through focusing on the purposes of budgets, types of budgets and the budget process. At the end of each of these three sections a description of how the financial crisis affected respective topics will be summarized.

4.1 Background Information

4.1.1 Jönköping County Council and Ryhov County Hospital

The County of Jönköping is the fifth largest County in Sweden in terms of numbers of inhabitants, and consists of 13 municipalities. The highest governing body of the County Council is called the County Council Assembly, which makes the overall decisions about County activities. By the end of December 2009 the County of Jönköping had a population of 336 000 (Annual Report, 2009).

Ryhov is the County Hospital of Jönköping and consists of a total of 25 basic units, which together with women's health and childcare form the department of healthcare provision in Jönköping. Ryhov employs approximately 3500 people and around 141 000 people live within the healthcare provision of the hospital (Bernes, 2011).

4.1.2 The Swedish Local Government Act

The County Council's budget is set by the democratically elected people in the assembly. However, the self-government of the County Council is somewhat limited by laws and regulations made by the state. For instance, the economic responsibilities of the County Council are listed in the Swedish Local Government Act, which declares that the County Council needs to have a good economic management (SFS 2004:93). The term "good economic management" lacks a precise definition in the Swedish Local Government Act, though, according to Petersson (2007), it generally means that local governments may not use their assets or borrow to cover current needs. The basic principle is that the continuous revenues ought to cover the running costs (Petersson, 2007).

As stated by the Swedish Local Government Act, every County Council is obligated to compose a budget for the following fiscal year. The budget should be established so that the revenues exceed the costs and only for exceptional reasons, such as strong financial position or restructuring, may this balanced budget be disregarded. Furthermore, the plan of the County Council's economic management and undertakings shall be included in the budget and the budget shall be drawn up annually. In addition, the plan should contain the rate of taxation as well as funding allocations and indicate the activities which are to be financed during the year, and how the financial situation is expected to be at the end of the year. In accordance with the Swedish Local Government Act, the County Council needs to include an economic plan for the following three years in the budget, with the fiscal year constituting the first year of the period (SFS 2004:93).

4.1.3 The Local Government Equalization System

The Local Government Equalization System in Sweden exists in order to reduce differences between poor and rich Counties and mainly consists of income equalization, cost equalization and structural grants. The income equalization is primarily funded by the state and guarantees County Councils 110 percent of a calculated average tax income capacity. Whenever a County Council is above this average tax capacity, they pay an income equalization contribution to the state. The cost equalization serves the purpose of reducing the differences between the County Councils in forms of costs and structural needs. However, cost equalization is not used for differences due to choices the County makes, such as the level of service provided and efficiency of the organization (Pettersson, 2007).

4.1.4 Management Control in Jönköping County Council

Vision and Strategic Goals

The benchmark of Jönköping County is to realize its vision of “a good life in an attractive County” (Annual Report, 2009, p.12). To achieve that vision and good economic management, a number of strategic objectives have been identified, such as good health, good health care, regional development, cost efficiency, systemic improvement and long-term and sustainable funding (Budget, 2011).

Control Model

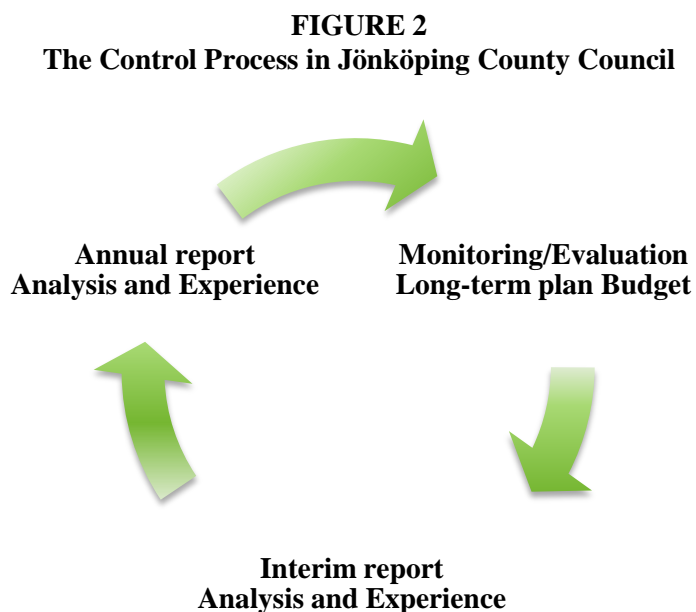
The County Council’s budget is accounted for in accordance with the control model Balanced Scorecard. First and foremost, the model acts as a support tool through the whole control process and drives the organization towards the strategic objectives. Furthermore, the advantage of the control model is that it takes the entire business into account (Budget, 2011). According to Kristina Bertov, the Balanced Scorecard model ensures that the common thread is followed throughout the whole organization.

Important Starting Points in the Management Control

Jönköping County Council is a public activity and hence, some important benchmarks have been set which are essential to the management control. The following three points influence the organization: the first aspect, which is the most significant, refers to the importance of achieving the financial goals. Emphasized in the second aspect is, however, that great health care does not mean market efficiency. Furthermore, the expression that characterizes Jönköping County Council is “we don’t play store” (Utredarutbildning, 2010). Even Björn Brorström in our interview, emphasizes that reasoning as a characteristic of Jönköping County Council, adding, furthermore, that the phrase means that they instead practice care. The final aspect of the management control in Jönköping County Council is that there should be a clear role and distribution of responsibility between politics and profession (Utredarutbildning, 2010).

Control Process and Good Economic Management

The control process is explained as an ongoing cycle, as exemplified in figure 2.



Source: Utredarutbildning, 2010
Own adjustments including translations.

Good economic management is, in addition to the three key starting points above, something that always ought to be taken into consideration in the control process of the County Council. The County Council has taxation rights on the citizens and aims to add value to the inhabitants of Jönköping through the taxpayers' money (Budget, 2009).

Good economic management is viewed through two different perspectives in the County Council of Jönköping; organizational and financial.

The organizational perspective of good economic management is to be productive and efficient, i.e. do things right and do the right things. The financial perspective refers to the so-called generation principle, which means that every generation must bear the cost of what is consumed. Furthermore, another important aspect is to provide a long-term guarantee for the future running of the organization without having to subject the citizens to raised taxes (Utredarutbildning, 2010). Thomas Israelsson and Kristina Bertov explain good economic management as being a contentious subject without a set limit and it is up to each County Council to decide for themselves how to interpret it. Furthermore, Israelsson adds that Jönköping County Council has decided to view good economic management through different dimensions and the financial goal is to have a result at the end of the year of 2% of tax revenue and government grants.

The public sector has different objectives from the private one, as can be seen in figure 3 below. Bertov emphasizes that within the public sector money is purely seen as means to reach the goals defined in the budget, and further explains that the budget communicates the intended objectives the County Council needs to achieve next year and the money they have to achieve these goals. Thereby, the objective of the public sector is to reach the goals of the organization by the funds at hand in contrast to the private sector, where the organization works as a means to reach revenue.

FIGURE 3
Different Objectives in Public and Private Sector

	Public	Private
Objective	Organization (Utility)	Capital (Profit)
Input	Capital (Resources)	Organization

Source: Utredarutbildning, 2010
Own adjustments including translations.

Control Tools

The most important control tools for Jönköping County Council are the budget and the annual report. The budget contains a multiannual plan for the organization and the annual report is an indispensable tool in monitoring the budget. In addition, the budget illustrates how the organization should be steered towards the strategic objectives by formulating the vision and goals of the organization. Moreover, plans of actions for how the establishment can be improved and move forward are established. The budget results are monitored continuously through monthly, interim and annual reports, and the analysis of these reports is subsequently, the basis of the improvement plans that may need to be implemented (Budget, 2009).

4.2 Purposes of Budgeting

Budgets can be used for different reasons. This section describes the main purposes of budgets in the County Council of Jönköping, and finally we show a review of how the financial crisis may have influenced some of the purposes.

4.2.1 Planning

Long-term planning is an important part of the County Council and the annual budget also consists of the County Council's prepared plan for future years. The budget on the central level is more strategic in contrast to its task level where the budget has a more operational role. Bertov explains that the central level of the County Council can be seen as an integrated part of political decisions where the County Council acts as a representative for politics as well. The County Council's strategic objectives are defined in the budget, where one primary part relates to long-term and sustainable funding. Hence, the financial objective of 2% in relation to tax and government grants is set in order to achieve long-term planning for a funding without future tax increases (Kristina Bertov). The planning process of the budget will be exemplified in detail later on, in connection with the budget process.

4.2.2 Co-ordination

The County Council ensures that the entire organization strives towards the same objectives through the support tool, viz. Balanced Scorecard. The model helps the organization to have a

common thread through all levels in the organization (Kristina Bertov). The budget (2009) exemplifies fundamental values in accordance with good managerial leadership in the organization where all leaders should ensure that activities are within set budget frames and a continuous work with improvements should be done as well.

4.2.3 Communication

Communication is further developed in the budgeting process part later on, where we show the structure of responsibility and the different tasks on every function. Since the total budget consists of much more than just the financial frame, every department knows what is expected of them, and how to achieve these set objectives is stated in their action plan. (Kristina Bertov).

However, Lars Wallström describes that the budget for Ryhov County Hospital, has the purpose to set limits due to different activities:

Employees on different clinics realize diverse needs they aim to meet. However, the budget is a tool to restrict some of the needs, and therefore the budget sets a ceiling for possible investments. - Lars Wallström

4.2.4 Motivation

As mentioned under the co-ordination and communication part, it is significant that every function in the organization stays within their allocated budget frame. A reward system is implemented at Ryhov County Hospital to the 25 clinics. If the budget results in a surplus, the clinic has the right to keep this surplus to invest in education or development. However, if a clinic exceeds a budget frame there is no punishment besides the fact that an improvement plan must be implemented in order to resolve problems. However, Wallström emphasizes that every clinic must work for the best of the organization. The budget frame is tight, so the clinics must make an effort in order to stay within limits (Lars Wallström.) Bertov also describes that reward systems to the departments, are not directly related to the budget result, but rather refer to various quality variables. Hence, there are yet no incentives related to a positive or negative result.

4.2.5 Control

The control aspect is similar to the other aspects above. The County Council, more or less, controls the department through a set budget frame, which also includes diverse objectives (Kristina Bertov).

4.2.6 Performance Evaluation

The departments are evaluated monthly and on a four-month period. As mentioned, the County Council does not reward nor punish Ryhov County Hospital because they managed to stay within set budget frame (Kristina Bertov). However, monitoring of the budgets evaluates much more than just the economic variable, such as customer satisfaction.

4.2.7 The Financial Crisis

The planning purpose to achieve the long-term objective of 2% in relation to tax and government grants means that regardless whether an economic crisis occurs or not, the

financial target is still in focus. The organization first aims to achieve the financial goal, thereafter their activities must adapt to the remaining resources.

What we of course strive for is that the allocated resources lead to the best possible benefits to our patients. However, this is not contradictory to the financial goals. - Kristina Bertov

Concerning the budget's role, both Wallström and Bertov declare a more important role due to the crisis. Wallström explains that during crisis, it is even more significant to remain disciplined and not extend the budget frame since margins are usually tighter. Also reports must be critically analyzed. Thomas Israelsson instead explains how the budget's role is always of importance since the entire organization has a strong budget focus.

However, Israelsson means that during the financial crisis, they had to communicate in the organization that the County Council actually did not restrain operations, that the activities will be on-going as normal. However, he also means that in a public organization, people show understanding if the decision instead leads to saving requirements due to the financial crisis. In contrast, Israelsson exemplifies that during good years, no arguments to restrain operations are accepted. On the other hand, Wallström emphasizes that Ryhov County Hospital did not notice the crisis at all.

4.3 Types of Budgets

In this section we describe the types of budgets utilized by Jönköping County Council, followed by an explanation of some changes made to the financial goals in the budget due to the economic crisis.

Jönköping County Council mainly applies three types of budgets: budgeted income statement, cash budget and budgeted balance sheet. However, a major focus is on the income statement, whereas the cash budget and the budgeted balance sheet are given more modest roles. In addition to the three budgets, Bertov explains, there is an extra budget used in the County Council called the operating budget; this budget is based on the budgeted income statement. Furthermore, as Bertov puts it: "the operating budget is where the money gets allocated." The operating budget defines the amount of funds which are to be allocated to each sector and in addition, the purposes of the allocations are somewhat expressed, since they do not appear in the budgeted income statement. Sometimes, however, situations occur when the budget lacks allocations, in these circumstances supplementary budgets are drawn up although still within the overall budget frame. Thus, to summarize this in a more tangible way, first a master budget is created and thereafter broken down into sub-budgets, which in the next step are allocated to the different departments (Kristina Bertov).

The starting point in forming of the budget takes place on the revenue side, which is based on tax income and government grants, thereafter, on basis of the funds at hand, the cost side is established. The cost side is mainly based on historical events with adjustments made due to inflation, increased wages etc. However, in contrast to the cost side, the revenue side is not based on historical data since new tax and government grant forecasts are received continuously. Bertov, nonetheless, points out that some history is taken into consideration on

the revenue side as well, since the tax income in Jönköping is not radically changed throughout the years. However, the main focus is on the moment and the present circumstances, primarily because of the variation in government grants (Kristina Bertov).

The budgets in Jönköping County Council are revised as needed and there is ordinarily no radical change between the years. However, this year a major revision was made to the master budget:

This year we are probably making the largest revision of the budget that I have experienced in 10 years. Because this year, we received a new tax forecast that was 30 million more than what we had budgeted, additionally, there were signals of expanded needs. Consequently when we revised the budget, we increased the revenue side, and we increased the cost side but the result still improved by 20 million. - Kristina Bertov

Lars Wallström at Ryhov County Hospital explains that the main budgets used on departmental level are: the budgeted income statement and the budgeted balance sheet. However, the budgeted income statement is the most important one, and a narrow focus is placed on the budgeted balance sheet. Furthermore, the cash budget is non-existent on departmental level, and according to Wallström, all liquidity is controlled centrally at the County Council.

4.3.1 The Financial Crisis

What happened early on in Jönköping County Council was that the organization took a decision not to act as a regulator of the financial crisis. In fact, Bertov emphasizes:

There is nothing that says that the need of care is reduced because there is a financial crisis, it is quite the opposite. On the contrary, had the crisis been deeper and lengthier, maybe we had thought differently. However, we said no, business shall proceed as usual and we never pulled the handbrake on activity. So we said, we can allow a downfall on our financial result for the County on a given year, what we did in concrete terms during the financial crisis was reformulating the financial goals. - Kristina Bertov

Before the economic crises, the financial goals stated in the budget were that the County should each year reach a result of at least 2% of tax income and government grants to secure a long-term running of the organization without having to raise taxes, and investments should be financed by own means. What occurred during the crises was a restructuring of the financial goals by adding a sentence that stated: “with regard to economic fluctuations, it is reasonable for the financial targets of the County Council to be seen during a business cycle” (Kristina Bertov). So, instead of having to reach a financial result of 2% each year the County Council decided that instead an average of 2% should be reached during a business cycle. Furthermore, they declared there was no capacity for increased consumption and the organization was to be developed and financed through efficiency instead (Kristina Bertov). In accordance with Bertov, Wallström explains that none of the departmental budgets changed due to the financial crisis.

4.4 The Budget Process

Examples given regarding the budget process in the theoretical foundation are not specifically associated with the health care system, and as mentioned, the law regulates the formation of the Swedish County Councils' budget process. Therefore, the focus in this section is related to the three overall main components, namely preparation, implementation and monitoring of the budget.

Several factors are influencing the County Council's budget process, as for instance laws and politics:

The budget process is surrounded by some sort of frame. In one manner, laws and politics control the external frame, which needs to be considered. It is just there, one does not have to consider whether every question is right or wrong. However, if one feels that an action is outside the frame's limits, one has to refer back to the law and the political guidelines. - Kristina Bertov

4.4.1 Planning and Preparation of the Budget

The budget process is an ongoing cycle in the County Council. Looking at the process through the whole chain, it involves hundreds of employees (Kristina Bertov). An illustration of how the process operates from a central level down to the departments will be shown. The following section therefore gives a detailed explanation of the different stages in the budget process, referring to figure 4 below.

FIGURE 4
The Budget Process in Jönköping County Council

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PLANNING	Budget and planning											
	Needs analysis			Needs are compiled, prioritize process				Political process and decision				
	Supplementary budget											
Implementation	Implementation due to set objectives and guidelines											
Monitoring	Monthly reports											
	Annual report			Interim report 1				Interim report 2				
	Dialogue concerning needs and resources											
Dialogue												

Source: Budget, 2011, p. 95
Own adjustments including translations.

The planning process includes three key stages and is an on-going procedure over the entire year. The major work concerning planning is done at the central level, in other words the County Council level (Lars Wallström). Different prerequisites such as economic conditions, tax revenues and government grants must be taken into consideration to identify the incoming future scope of money that the County Council later allocates to diverse departments (Utredarutbildning, 2010). The County Council's income base is primary:

Concerning tax developments, we receive forecasts from SKL. Taxes, government grants, and the Local Government Equalization System are our largest incomes. - Thomas Israelsson

Different Stages in the Planning Process

Stage one

Stage one in the planning process includes estimation of needs from the departments, in other words, a needs analysis. The needs analysis means that departments must submit and estimate their future needs for the coming period. The department, here referred to as Ryhov County Hospital, receives information about deadlines and how to submit their needs to the County Council concerning enlarged operations (Kristina Bertov). At this stage, Ryhov County Hospital's essential work is to hand in different needs in accordance with set deadlines, often in March or beginning of April. Thereafter, Ryhov County Hospital does not enter the budget process until the end of stage two, which is then followed by stage three, where they receive and submit a budget proposal to the County Council (Lars Wallström).

Stage two

Stage two in the planning process involves officials at the County Council, such as the budgeting manager Kristina Bertov, the finance manager, the human resource manager, the healthcare manager and the County Council Chief Executive. In stage two, the needs from the first stage are compiled and a comparison of the County Council's financial limits and the departments' total sum of needs is done. Additionally, the political view is considered in stage two (Kristina Bertov). However, this stage induces a difficulty to prioritize between different needs and the County Council Chief Executive holds the main responsibility in this planning stage. Nevertheless, when the procedure is through, the officials design a total budget proposal for the entire organization by the end of August. Ryhov County Hospital, receives in this stage directions for their budget proposal, where they have to construct an action plan and economic frame for the County Council (Kristina Bertov; Budget, 2011).

Our total budget consists of much more than just a money limitation. Additionally, objectives that need to be achieved are defined. Thereafter, the departments can set actions of how to achieve these objectives. - Kristina Bertov

Stage three

Stage three is characterized by a parallel process. Dialogues between departments and the County Council are held and the budget proposals from the departments are received. This later involves the delegation of planning in September and October, which embodies a discussion process at approximately three to four occasions regarding the budget and plans for the coming years. Thereafter, a budget draft is provided to the County Council Executive Committee. The County Council Assembly accepts the total budget in November while the County Council Executive Committee determines a finalized decision in December regarding

the administrative budget to the departments. Stage three is the last section in the planning process, which means that the County Council’s total budget now is defined for also every department (Kristina Bertov).

In addition, the supplementary budget is referred to the planning stage. Noteworthy here is the fact that the supplementary budget is still within set budget frame, but works as a complement for uncertain activities.

Moreover, other aspects in the process refer to whether the County Council applies a top-down versus a bottom-up approach. The interviews indicate a high process participation level. Ryhov County Hospital is, as mentioned, involved in the beginning of the planning process. The financial director of Ryhov County Hospital, Lars Wallström, describes the procedure of how the budget begins at their department level to later reverse, since they in the end, receive an allocated budget from the County Council, and therefore it also includes the top-down perspective.

However, the County Council exemplifies the approach as:

The budget may have arisen from a bottom-up approach. However, there are many inputs in the budget, so in one way or another, I would still say that it is a top-down approach. - Kristina Bertov

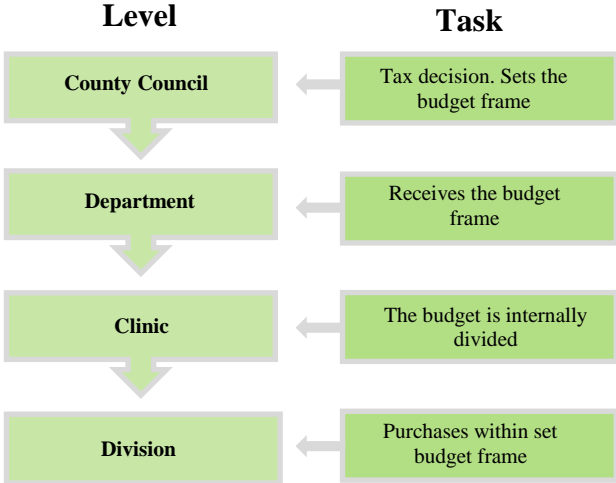
4.4.2 Implementation of the Budget

In order to describe how the budget is implemented, the coming part is essential to understand. Wallström describes the different responsibility as:

There are four different levels. Taxes are set for the entire organization at the very top, in other words, at the County Council level. We do not have our own taxation level; they are determined at the County Council. - Lars Wallström

The budget primarily involves four levels, viz. County Council, department, clinic and the division. Various activities and responsibilities are divided on the four levels, going from the central level to the basic units. However, it is noteworthy to remark, that this part is due to a finalized budget. Figure 5 illustrates the responsibility structure of the organization including the different obstacles the budget must undergo:

FIGURE 5
Implementation of the Budget in Jönköping County Council



Source: Utredarutbildning, 2010. Own adjustments including translations.

The County Council level does not only necessarily refer to the County Council office. On the most central level, political intentions are realized through decisions regarding taxes, larger investment and patients' fee. In addition, officials, accountants and controllers etc. together with the politicians, are integrated at this central level. In connection with the next level, the County Council Executive Committee distributes the budget frame to the departments (Kristina Bertov; Utredarutbildning, 2010).

The department level represents the second level. At this stage, the frame for every unit is agreed upon and there is a distribution of investment capital. The health care director has the main responsibility (Utredarutbildning, 2010).

On the third level, the clinic, the budget is internally divided between various types of costs and divisions, and the director of the clinic decides on questions of employment matters (Utredarutbildning, 2010).

Last, on the fourth and most operational level, namely the division, the manager instead controls questions concerning daily manning and new purchasing. However, purchases must still remain within the distributed budget frame (Utredarutbildning, 2010).

4.4.3 Monitoring the Budget

Planning, preparation and implementation of the budget has been shown. However, as demonstrated on the budget process figure above, additional parts are included in the process, such as monitoring the budget. In order to have a meaningful follow-up, different objectives and numerical values must be set. The importance to be able to benchmark with other County Councils is also significant (Utredarutbildning, 2010). Monitoring the budget includes several parts. The main tools used are monthly reports, interim reports and last and most importantly, the annual report. The County Council today has an extensive focus on various key ratios.

A few years ago, monthly reports were not implemented. However, the implementation has resulted in positive feedback. Before the use of monthly reports, the County Council only practiced interim reports, settled by end of April and August, which consequently led to too late problem adjustments (Thomas Israelsson).

If we turn back a few years, we only had annual accounts. Therefore, a strong focus was placed on April. This caused uncertainty; since you look back and evaluate how the situation turned out, but still this should only be a forecast until December. - Thomas Israelsson

Through monthly reports composed on the department level, the County Council possesses good control. The control is maintained through comparing budget to variances (Kristina Bertov). Also different objectives are evaluated that should be achieved. Early warning system should give signals whether the operation is developing in the way the administrative budget requires or not (Utredarutbildning, 2010)

The interim reports show how the organization should develop and are based on a four-month period. The action plan is primarily evaluated in this phase. If the department, as the Ryhov County Hospital, does not achieve set objectives, an improvement plan is constructed of how objectives can be accomplished in the future and what effects it may cause (Thomas Israelsson). From an economic standpoint, the last interim report is of high importance since it is seen as a short version of the annual report.

A review of the organization and its financial statement is most comprehensive in the annual report. The report reflects if good economic management is achieved. In connection with monitoring the budget, the significance of good dialogues and feedback concerning needs and resources between departments and the County Council is high. However, the dialogue and teamwork is important through the whole process in order to achieve full capacity utilization, and time should be given to analysis (Utredarutbildning, 2010).

4.4.4 The Financial Crisis

Concerning the aspect of how the County Council reasoned due to uncertainty, the crisis caused a need for dialogues at the central level, namely the County Council level. In the context of the crisis, a strategic decision had to be taken whether to slow down operations or instead allow a negative effect on the result. Beyond that, Bertov does not believe the crisis lead to higher employee participation in the budget process in comparison to “normal” conditions. The decision taken during this time was not to restrain the operation and instead allow a worse result during the crisis. The units should continue as normal since there were no indications that demand for health care decreased due to a recession, it was rather the opposite. Hence, stage two to prioritize in the planning process did not change since the activities continued as normal. However, instead, the question whether to expand or not became more essential. The Chair of the County Council Executive Committee in the County of Jönköping, Per-Anders Johansson, who has the main responsibility in the political process concerning the budget, argues that in connection with the financial crisis, their message ended up with no room for further investments. However, by reallocating existing resources, most of the problems from the crisis were solved.

Bertov declares that if the decision instead had been to maintain an unaltered result regardless from the recession, an introduction consisting in withdraws of activities and saving obligations would have occurred. That decision would have led to larger influences due to increased participation. However, the County Council resolved the question on the central level, where officials and politicians determined that restrains were not necessary (Kristina Bertov).

Throughout the interviews the respondents stress the County Council’s good financial condition and their strong economic focus. According to Israelsson, Jönköping County Council was one of few others, which due to the circumstances, still could discuss to expand operations instead of implementing saving requirements. Jönköping County Council is one of the best due to financial key ratios. Israelsson exemplifies how people in the area of Jönköping possess a reputation to hold on to their money, and in one way this also reflects the County Council’s way of working where the economy always stayed in focus.

Israelsson also stresses that financial circumstances should be a strategic task and not affect Ryhov County Hospital, since their main task is to stay within the budget frame. Hence, operations should be on-going as normal and concerns about declining tax revenues are a strategic issue. Referring to the frequency of miscalculations because of declined incomes, this was not a problem according to Bertov, since they allowed a negative effect on the result. On the other hand, departmental changes cannot be completely excluded. If the decision instead had been to perhaps cancel operations, a tighter administrative budget would have been allocated to Ryhov County Hospital. Similarly, Israelsson explains that negative influences on the departments were never a problem for Jönköping County Council.

Lars Wallström, Financial Manager at Ryhov County Hospital, agrees that the financial crisis did not affect their department since the situation was strategically well handled. The

respondents on the Ryhov County Hospital declared that the financial crisis did not affect their divisions either. Anders Olsson, Financial Controller at Ryhov County Hospital, explains how they continued work as normal during the crisis. He contemplates how declining tax revenues bring risk, so that in the long run it could have consequences if it is not strategically well handled.

Pirko Lackström, at the Radiology Department, which belongs to one of the clinics that do not receive the allocated budget from the County Council since they offer internal services, did not notice the crisis either. Lackström describes: “the more operational one is in the organization, the less one notices the financial market.”

Mikael Ståhlberg, Financial Controller at the Service and Cleaning Department, whose budget structure corresponds to the radiology department, had in their budget process a discussion whether the financial crisis would lead people to use their cafeteria services less, but no decline was confirmed. He suggests, though, that the County Council should be wary since tax revenues are decreasing and a higher unemployment rate is experienced. The financial crisis caused decreased tax incomes in Jönköping County Council. However, the fiscal problem was solved through a government grant of 140 million that instead improved the County Council’s surplus (Thomas Israelsson).

As mentioned in the Swedish Local Government Act, the County Councils in Sweden should construct a budget in a way where income exceeds expenditure. This implies that zero-based budgeting can occur. However, the outcomes can show shortages, but must be restored within two years. Before this rule was introduced, several municipalities showed continuous deficits because of political reasons to avoid an increase in taxation for instance. However, in Jönköping County Council, the financial goals are 2% of taxes and government grants (Thomas Israelsson). As a consequence after the financial crisis, the County Council reformulated the budget’s financial goals through adding a sentence with regard to economic fluctuations. This implies an allowance where financial requirements do not have to be met each year, but seen over an economic cycle, the goals should still be achieved. The financial goals are mainly 2% of taxes and government grants (Kristina Bertov).

To summarize, Jönköping County Council managed the financial crisis in a good manner. Bertov explained that the process in itself was not especially affected by the financial crisis, it could have been, but the strategic measures they took caused a good outcome in the end:

We managed the financial crisis well; perhaps it was our luck since we remained calm. We sat quietly in the boat and intended to manage the economic crisis with our financial muscles. - Kristina Bertov

5. Analysis

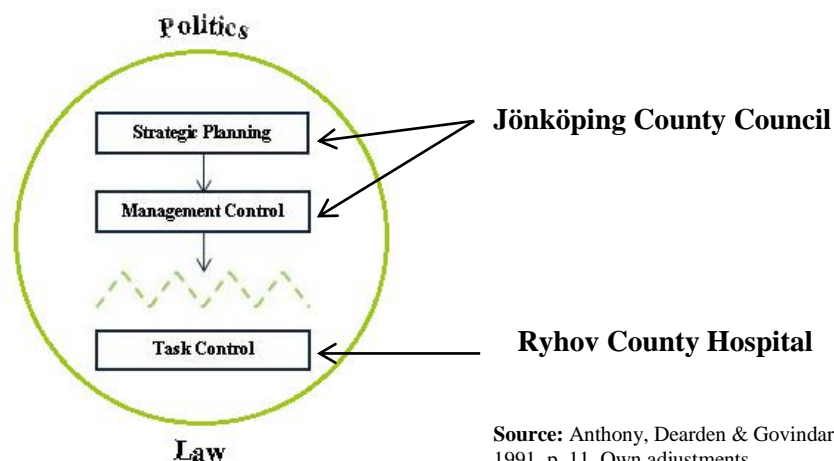
This chapter is structured in accordance to our research question and its sub-questions. Furthermore, Jönköping County Council's managing under the financial crisis is analyzed under each section.

5.1 Purposes of Budgeting

Prior research describes several purposes and reasons to implement budgets in an organization. Focus on planning, co-ordination, communication, motivation, control and performance evaluation are of main significance (see Mintzberg, 1994; Kennedy & Dugdale, 1999; Drury, 2000). The purposes appear to go hand in hand with each other.

Planning refers to different control levels in an organization, and the diverse levels indicate long-term or short-term planning. According to Anthony et al. (1991) long-term goals and strategies are decided on the strategic level. In addition, implementation of set strategies is executed on the management control level. As shown in our results, long-term planning is of high importance in Jönköping County Council due to vision and objectives, and in relation to budgeting. However, as exemplified in figure 6 below and further explained by one of the respondents (p. 23), Jönköping County Council can be seen as an integrated part of the strategic top level, consisting of politicians. Therefore, the County Council plans and operates on both a strategic and management control level and these two levels can be seen as one in the case of Jönköping County Council. In reference to Anthony et al. (1991), task control refers to planning at the lowest level of the organization and controls the day to day activities of individuals. As illustrated in figure 6 below, task control in our results mainly consists of Ryhov County Hospital and its subdivisions.

FIGURE 6
External Frame Surrounding the Activities of Jönköping County Council



Source: Anthony, Dearden & Govindarajan, 1991, p. 11. Own adjustments.

Long-term planning and the County Councils' economic responsibility are found in the Swedish Local Government Act, which for instance says that good economic management must prevail. However, good economic management lacks a precise definition (SFS 2004:93). Therefore, Jönköping County Council is not completely regulated in terms of good economic management and the County Council has decided to define good economic management from

two perspectives as shown in our results (p. 22), viz. an organizational and a financial perspective. The organizational perspective is characterized of being productive and efficient, i.e. do things right and do the right things. The financial perspective instead refers to the generation principle, which implicates that every generation must bear the cost of what is consumed. This reflects the strategic long-term view of how costs should not be transferred to the next generation. Two of the respondents explain how Jönköping County Council decided to view good economic management through the financial goal to achieve a result of 2% of tax revenue and government grants each year. The two mentioned perspectives, must always be taken into consideration in the County Council's control process, namely in their budgeting. This is also declared in printed budgets and annual reports, which are listed in table 1 (p. 5).

However, referring to the control purpose in relation to budgeting, the results showed, in addition to planning, how the budget in Jönköping County Council aims at control. The County Council controls the departments through allocating resources, which results in a set budget frame. Therefore, the budget sets limits, and one of the respondents further clarified how the budget places a ceiling for possible investments at Ryhov County Hospital. This is in accordance with Dunbar (1971), who showed the control process as a restriction of spending through the allocation process. Noteworthy to explain is that the word control in the context of Jönköping County Council, is not only referring to control in itself, it implies furthermore, to lead the organization towards its strategic objectives, which also indicates the coordinative purpose of budgeting.

Our results show that the budget in Jönköping County Council includes, except from financial variables, objectives to achieve. Due to this, every department is aware of its obligations. According to Drury (2000), clear lines of communication between all parts of the business are significant in order to have a fully functional organization. One of the respondents describes how Jönköping County Council ensures an implementation of objectives on all levels through applying a complementary support control tool, the Balanced Scorecard.

According to Drury (2000), a budget can also serve as an instrument for managers to evaluate their performance. One of the respondents explained how Ryhov County Hospital is evaluated on a monthly and four- month basis. Since the budget, as mentioned, includes more than just financial variables, other factors such as customer satisfaction, are also measured. If goals are not achieved, no punishment is implemented, but if the clinics at Ryhov County Hospital achieve a surplus in their budget, this surplus can be used for investments in for instance education. However, budgeting for performance evaluation and planning has been criticized by many (see e.g. Hansen et al., 2003; Hofstede, 1967; Wallander, 1999) for being a time-consuming process and inducing myopic behavior. However, in the case of Jönköping County Council there is no option but to use budgeting, since it is stated by law that every County Council must compose a budget for the following fiscal year (SFS 2004:93).

Additionally, Ax et al. (2007) explain budgeting as a link between the strategic planning and task control level, which is in accordance with budgeting in Jönköping County Council. Our results show that budgeting communicates the goals set on the strategic level to the departments on the task level, such as Ryhov County Hospital. Furthermore, budgeting serves the purpose of linking all the activities in the organization and makes sure that a common thread is followed throughout the County Council, by for instance co-ordinating the activities of Ryhov County Hospital, to make sure that they know what is expected of them.

Referring to the communication purpose, Ezzamel and Bourn (1990), and also Galbraith (1972), explained that crisis in an organization can lead to a decline in communication channels, due to more centralized decision making. One of the respondents explained how the financial crisis caused dialogues at the central level where, in addition, the decision of how to handle the crisis was taken. Although the crisis caused a centralized decision, our results did not indicate a decline in communication. One of the respondents explained how the County Council due to the crisis, had to communicate throughout the organization, that no restraints would occur and there would be less financial resources available for investments. It is difficult to demonstrate whether a more centralized decision-making occurred due to the crisis, since strategic decisions generally are set at the central level in Jönköping County Council, but the organization's communication was still of importance.

In addition, as exemplified by Boin and 't Hart (2003), public leadership under crisis has been described as impossible. Concerning the financial crisis in Jönköping County Council, two of the respondents declared that crisis should be handled on the strategic level and not affect the task control level namely, Ryhov County Hospital. Therefore, concerns about declining tax revenues should be a strategic issue. One of the respondents at Ryhov County Hospital that is in accordance with this suggestion explains how they did not notice the financial crisis since the situation was strategically well handled. The additional three respondents at Ryhov County Hospital agree that their clinics experienced no effect due to the financial crisis. One of the respondents, however, emphasizes that declining taxes in the long-run could bring effects on the clinical level if the situation is not strategically well handled.

In conclusion, if the crisis criterion is that crisis only occurs if the individuals in question perceive it as one (Dayton et al., 2004; 't Hart & Boin, 2001), our results implicate that Jönköping County Council did not encounter the financial crisis.

5.2 Types of Budgets

The finalized budget consists of several budgets and its sub-budgets. Shim and Siegel (2008) described the general budget as a master budget, which consists of a budgeted income statement, a cash budget and lastly the budgeted balance sheet (Shim & Siegel, 2008). Our results show that the master budget is set on the central level in Jönköping County Council. One of the respondents describes that at the County Council level, all three budgets are practiced. Additionally, an operating budget is applied, which aims to allocate resources. The liquidity is controlled centrally, and therefore, Ryhov County Hospital, only applies the budgeted income statement and the budgeted balance sheet, where the budgeted income statement has the main focus.

One of the respondents explained that none of the departmental budgets changed due to the economic crisis. What occurred at the central level as an effect of the crisis was, according to one of the respondents (p. 26), to add a sentence concerning the financial goals, which stated "with regard to economic fluctuations, it is reasonable for the financial targets of the County Council to be seen during a business cycle". Instead of having a financial goal of 2% each year as before, an average of 2% during a business cycle was allowed to be reached.

When unforeseen events occur, strategic planning usually requires immediate decisions. This can result in random decisions since the data used is based on rough estimations of the future (Anthony et al., 1991), on the other hand, there are no rules of how an economic crisis will develop, and therefore, estimations presumably will be even rougher than under normal

circumstances as stated by Boin and 't Hart (2003). As described in our results, Jönköping County Council decided to handle the financial crisis on a strategic level. The decision taken in the County Council was to not restrain operations and let activities continue as normal, which was communicated down in the organization. One of the respondents explains that the starting point in forming the budget is the revenue side, which mainly consists of tax revenue and government grants. However, the data used to calculate the revenue side is based on continuous forecasts from SKL and presumably these were even rougher during the crisis. Nevertheless, two of the respondents explained that Jönköping County Council believed their financial situation to be strong enough to handle a financial downfall on a given year. Further, Jönköping County Council received a government grant of 140 million, which improved their already existing surplus.

5.3 The Budget Process

There are several ways to construct a budget, and authors show a diverse number of steps in order to reach the finalized master budget (Shim & Siegel, 2008; Kennedy & Dugdale, 1999). A successful budget process should in addition show policies in accordance with decision-makers (Kliman, 1990). However, the budget process in a public activity is somewhat more complex. Our results showed how management control, or more precisely the budget process, in Jönköping County Council is influenced by laws and decision-makers. One of the respondents explained laws and politics as guidelines and illustrated their control as an external frame, which Jönköping County Council needs to consider and refer back to if uncertainty occurs. This is exemplified in figure 6 above. In addition, Jönköping County Council's finalized budget must be approved by democratically elected people in the County Council Assembly (SFS 2004:93). The fact that the budget must be approved is obvious, but not every business or organization requires an approval from democratically elected people. Therefore, all nine steps shown by Kennedy and Dugdale (1999) are not directly applicable to Jönköping County Council's budget process. The steps are performed, but not necessarily in its certain order. However, the general three components of the budget process, which Kennedy and Dugdale (1999) also described, namely prepare, revise and monitor the budget, correspond to the budgetary process in Jönköping County Council. Furthermore, White and Broskowski (1980) explained the budget process as an annually ongoing cycle and suggested that planning should be integrated in the process. This suggestion is also reality in Jönköping County Council, where our results showed planning as an essential part of the budget process, which involves both the central and departmental level.

Moreover, how and to what extent participation in the budget process occurs may vary. One study showed how the participation level throughout the budget construction decreases if resources are not scarce and the departments rather can get a hold of what they want (Schick, 1985; Cameron & Whetten, 1983). Referring to figure 4 in the results (p. 27) regarding Jönköping County Council's budget process, stage two demonstrates a prioritization process where officials prioritize between diverse needs. This indicates scarce resources since prioritization must occur. Our results showed a somewhat high participation level through departmental needs analysis involvement. The needs analysis eliminates the disadvantages with a top-down approach, which according to Shim and Siegel (2008) occur when managers at the central level lack knowledge concerning the task control level.

Our results also indicated a divergence in regard to whether Jönköping County Council applies a top-down or a bottom-up approach. One of the respondents at the County Council level described budget participation mainly as a top-down approach but agrees that the budget

may have arisen from a bottom-up approach, but above all, it is still a top-down approach in the end. By contrast, one of the respondents at Ryhov County Hospital declared their involvement through the needs analysis, which suggests a bottom-up approach. Furthermore, previous research on the subject has shown that participation in the budget process increases motivation to achieve the goals listed in the budget (Searfoss & Monczka, 1973; Locke, 1966). In addition, a study by Searfoss and Monczka (1973) found that perceived participation in the budget process was enough to act as a motivator. Therefore, by comparing our results to Searfoss' and Monczka's study, whether Jönköping County Council utilizes a top-down or a bottom-up approach or not, is of less importance, since one of the respondents perceives Ryhov County Hospital as participating in setting the budget. Hence, the budget's purpose to act as a motivation tool is accomplished either way. On the other hand, referring to the two different answers, a combination of the two approaches is indicated.

Monitoring the budget is important in order to realize inaccurate budget estimates (Shim & Siegel, 2008). White and Broskowski (1980) described monthly reports and quarterly reviews as essential tools. Our results show that monthly reports and quarterly reports (interim reports), are utilized in Jönköping County Council with one additional tool, the annual report. In the context of the mentioned reviews, a continuous dialogue process is implemented. Monthly reports did not exist in the County Council some years ago, according to one of the respondents, the lack of these reports resulted in too late adjustments. Through monthly and interim reports, one of the respondents explains that the County Council has good control when comparing budget to variances and if goals are not achieved, an improvement plan is implemented.

One of the respondents described that during crisis, it is even more significant to remain disciplined and not extend the budget frame since margins usually are tighter. This indicates that monthly and interim reports bring further advantages during a financial crisis, since the County Council can have continuous control of departments through the reviews.

In crisis management, operational obstacles are associated with preparation and coping with crisis, which shows how organizations prepare for the unexpected (Dayton et al., 2004). The crisis in Jönköping County Council caused, as mentioned, a need for dialogue at the central level to take a strategic decision whether to slow down operations or not. Furthermore, Hermann (1972) explained crisis as having three elements, where one of them referred to situations that affects high-priority goals during decision-making. However, our results show that in Jönköping County Council the crisis never affected their prioritization process, or the budget process, since they decided to not restrain operations and instead allow a worse result during the crisis. A decision to instead slow down operations may have led to effects on the priority process and decision-making, since it would require prioritizing of certain activities and areas, and not only of departmental needs.

Our results show that Jönköping County Council, after all, managed the financial crisis well. However, if the crisis had been deeper and lengthier, the decision to continue activities as normal may have had to be reconsidered. If a crisis is not handled in the right manner, public criticism occurs (Boin & 't Hart, 2003), and can lead to reduced trust from citizens (Hunt, 2010). If a different decision had been taken, such as reduced operations, it may have caused a negative outfall. Referring to public leadership under crisis and its complexity, wrong decisions in the eyes of citizens and lack of management can lead to reduced trust from the general public (Hunter, 2010). However, for Jönköping County Council, this never occurred.

6. Conclusion

In this chapter we return to our primary research question “How does a successful County Council practice budgeting during a financial crisis?” and its sub-questions.

Jönköping County Council took a strategic decision during the financial crisis to not restrain operations and to instead let the recession influence their financial result. This had the effect that Ryhov County Hospital on the task level never felt the crisis and could continue working as normal. We have concluded that the main reason Jönköping County Council handled the financial crisis as well as they did, is due to their long-term focus. The organization has interpreted “good economic management” as being 2% of tax revenue and government grants each year, to ensure the long-term running of the organization. This, combined with monthly and interim reports to quickly and effectively solve problems with budgeting in the County Council, have resulted in a very effectively run organization. Furthermore, the long-term focus has given the organization a strong financial foundation, and the declining taxes during the financial crisis could instead be allowed to negatively affect their result.

Budgeting in Jönköping County Council serves the purpose of making sure that the whole organization strives towards the same objectives. Our analysis showed that the budget works as a link between decisions taken on the strategic level and down to task level. The budget communicates the goals of the County Council to Ryhov County Hospital and thereby, coordinates and controls their activities to make sure they know what is expected of them. Last but not least, the budget serves the purpose of allocating scarce resources to diverse departments in the organization.

Our results show that the budgets utilized by the County Council to assure a long-term running of the organization are a budgeted income statement, a cash budget and a budgeted balance sheet, which compiled create a master budget. Additionally, an operational budget is practiced to allocate resources. However, all liquidity is controlled centrally and the departments only utilize the budgeted income statement and the budgeted balance sheet, where the budgeted income statement has the main focus.

Our results show that the budget process in Jönköping County Council is a comprehensive one, involving hundreds of employees. The process consists of three stages: planning, implementation and monitoring. In the planning stage of the budget process a master budget is created, which is composed of a budgeted income statement, a cash budget and a budgeted balance sheet. Our analysis showed that a combination of top-down and bottom-up is applied during the planning stage of the budget. During the implementation stage of the budget process, the budgets are implemented on the different levels of the organization. Finally, the budgets are monitored through monthly reports, interim reports and last and most importantly the annual report. Due to the monthly reports, the County Council receives early indications of problems in the organization and can thereafter implement improvement plans when needed, to assure the long-term running of the organization. The budget process remained unaltered during the financial crisis, due to the strategic decision taken on the central level to continue operations as normally.

7. Discussion

This final chapter is based on our conclusions and discusses how our choices in the study may have affected the results as well as what we could have done differently. The chapter is closed with suggestions for further research.

The previous chapter, conclusions, showed how Jönköping County Council continued their operations as normal during the financial crisis. Therefore, budgeting was practiced in the same manner as before, which could be realized due to their strategic decision to let the declining tax revenues affect their financial result. All County Councils apply good economic management, but how Jönköping County Council decided to interpret this term, seems to have brought them several advantages.

We decided to focus our thesis on one specific County Council. As mentioned earlier in the thesis, the report from SKL (2010) in particular highlighted Jönköping County Council for managing the financial crisis in a different way. Our focus on one County Council required an in-depth study of the organization's budgeting, which led our choice to conduct a case study. As discussed in Chapter 2 (Method), a case study brings disadvantages as, for instance, difficulties to verify information, which also may be bias. However, in our case most of the information received from the respondents can be verified in the County Council's annual reports and budgets, which are available to the public.

A study of Jönköping County Council's annual reports and budgets may have helped us to answer our sub-questions. On the other hand, we believe that by doing a case study with several interviews, we had the opportunity to get a broader understanding of how the organization functions, and could thereby, better answer our research question and its sub-questions. The information regarding the purposes of budgeting was rather limited in the printed budgets and annual reports. Thereby, the interviews helped us to comprehend the diverse purposes of budgeting in Jönköping County Council; consequently, our choice of respondents could have influenced our results. However, concerning the remaining two sub-questions, extensive information could be found in printed material. The County Council's use of budgets was found in the printed annual budgets, but, in regard to the question about the diverse focus on the three different budgets, we only achieved this answer through interviews. Additionally, through the interviews we realized how all liquidity is controlled centrally, and therefore, Ryhov County Hospital only applies the budgeted balance sheet and the budgeted income statement. The budget process is also exemplified in the County Council's budgets; in addition, the process is regulated by law. However, because of the choice to perform interviews, we obtained different insights concerning participation in the process, which would not have been obtained through only studying the printed internal material.

However, as Wallén (1996) described, an additional disadvantage with our choice of doing a case study is, that it is hard to make a general conclusion after studying one specific case. Therefore, our conclusions may be difficult to apply to other organizations in the same situation.

During the process of this thesis, many interesting subjects have aroused. Due to the time restriction of 10 weeks, and our research question, we have felt the need not to follow every

thought-provoking lead. Instead, we close this chapter by explaining what we believe would be interesting further research.

7.1 Suggestions for Further Research

We have shown how a successful County Council as Jönköping practiced budgeting during a financial crisis and the consequences a financial crisis might cause. However, as mentioned in our introduction, several other County Councils faced harder economic conditions and decided instead to restrain operations and implement tax increases, which is the opposite from what occurred in Jönköping County Council. An interesting area for further research is to compare our study of Jönköping County Council to a County Council that faced strained conditions and, thereafter, try to infer differences concerning what makes one County Council more successful than another. Is success related to the organization's efficiency? Are there differences between the County Councils' management control and practice of budgeting? Since laws and regulations influence all County Councils, an interesting aspect is to study why their economic results still vary to such an extent.

Additionally, another interesting aspect regarding the public sector and County Councils is related to New Public Management and its reforms, which have been implemented in the health care system during the recent years. Today, there is a large pressure on the Health Care Sector to become more efficient and market orientated. One can then wonder, when the state provides government grants to the County Councils during a crisis to rescue their financial situation, how this will lead to efficiency in County Councils since they turn to the state for relief during crisis.

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9. Appendix

Question Template

General

- 1.) What is your role in the organization?
- 2.) How long have you had this role/position in the organization?

Budgeting

- 3.) What types of budgets do you utilize? Describe their roles in the organization.
- 4.) What budget is the most important one and why?
- 5.) Do you use an offensive (based on the revenue side) or defensive (based on the cost side, in order to then calculate revenue) budget?
- 6.) Who is responsible for the above budgets? Is it exclusively at the County Council level?
- 7.) Do you use fixed, flexible, revised alternative rolling budgets?
- 8.) What is your budget based on? Does it take historical events into account?
- 9.) What is the purpose/role of the budgeting in the organization?
- 10.) Does budgeting play different roles strategically, tactical etc.?

The Budget Process

- 11.) What is your role in the budgeting process?
- 12.) How does the budgeting process work? Explain
- 13.) How many people are involved in the budget process? Explain like the different roles.
- 14.) Over what time does the budget process stretch?
- 15.) How are the budgets constructed? Top-down or bottom-up or a combination?
- 16.) How many barriers does the budget process go through? Explain the types of approvals and parties involved
- 17.) How many people are working continuously with the budget process?
- 18.) How do the law, ownership, policy, funding and selection of control model affect the budget process?
- 19.) How is the budget monitored? Do you have any plans of action in case deviations arise?
- 20.) The public sector has undergone major reforms in recent years by increased privatization, such as demands for more efficient care and decentralization of

financial responsibilities. How has this affected your budget process? Have you noticed any difference depending on governance?

Financial crisis 2008-2009

- 21.) Has your budgeting been affected by the economic crisis of 2008-2009? In what way?
If not affected, why?
- 22.) Have you been prioritizing differently in the organization during the economic crisis, taking into account the financial targets, reduced revenues etc.?
- 23.) Do more problems arise in the budgeting process during a financial crisis compared to “normal” conditions? Do more parties become involved?
- 24.) Does the budget serve a more important purpose during a recession? Is the purpose of budgeting affected in any way?