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BUDGETING DECISION-MAKING IN FINNISH MUNICIPALITIES

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ABSTRACT

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This master's thesis examines budgeting decision-making in Finnish municipalities; an issue that has not received a lot of attention in the academic literature. Furthermore, this thesis investigates whether the current budgeting decision-making practices could be improved by using a new kind of budget decision-making tool that is based on presenting multiple investment or divestment alternatives simultaneously to the decision makers as a frontier, rather than one by one. In the empirical part of the thesis, the results from three case interviews are introduced in order to answer the research questions of the study.

The empirical evidence of this thesis suggests that there is a need for the presented budgeting decision-making tool in Finnish municipalities. The current routine is seen as good even though the interviewees would warm-

ly welcome the alternative method that would function as a linkage between strategy and the budget. The results also indicate that even though municipalities are left with a lot of room in their budgeting decision-making routine, the routine closely, though not always purposely, follows given guidelines and legislation. The major problem in the current practices seems to be the lack of understanding, as the decision-makers find it hard fully to understand the multiplicative effects of the budget-related decisions.

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1. INTRODUCTION

1.1. Background of Research

At the time this thesis is written, Finland is divided into 320 municipalities, all of them having unique economic and social characteristics. The number of Finnish municipalities has been decreasing and the population per municipality increasing. The trend in municipal deficits has also been increasing. This overall deficit has led to the Finnish municipal sector being referred as “the new Greece”. This indicates at the severe crisis including high deficits and debt level in Greece during the Euro zone crisis. It seems as if a growing number of Finnish municipalities are constantly challenged to deliver day-to-day services (Talouselämä, 2012). All this creates great challenges for capital budgeting in municipalities. In their budgeting decisions, municipalities operate under the rather loose legislation concerning municipal budgeting. Moreover, the Association of Finnish Local and Regional Authorities have published a guideline for municipal budgeting, which also is rather loose.

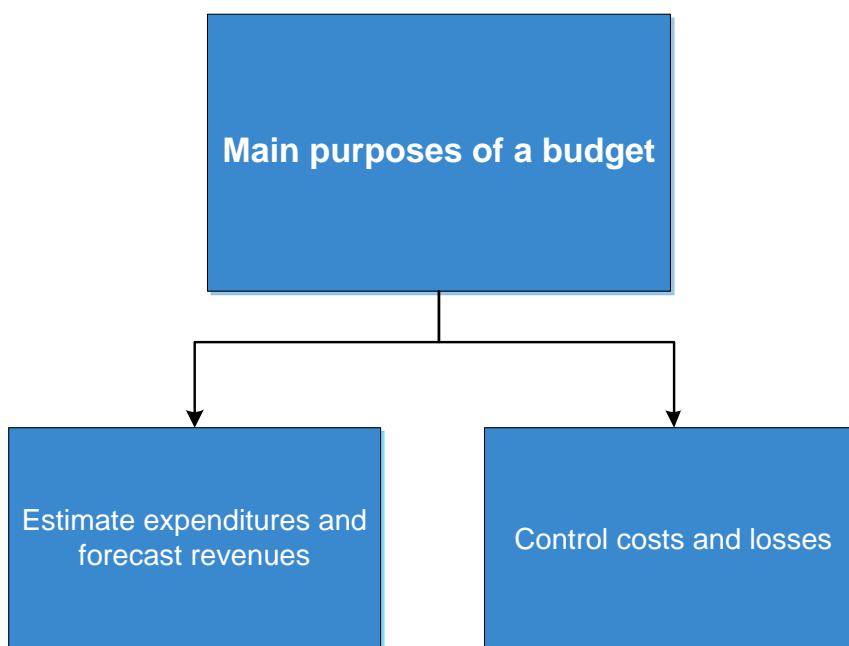


Figure 1. The main purposes of a budget.

Municipal budget is a document that introduces a municipality's plans for revenue and expenditure, on an annual or multi-annual basis. As can be seen in figure 1, a municipal budget has two main purposes. Firstly, it is meant to establish a program for estimated expenditures and forecasted revenues that are used to finance those expenses. The second main purpose of a budget is to control costs and losses in a way that the expenditures do not exceed the revenues. The importance of the budget is underlined by the fact that, when managed properly, it eliminates unnecessary expenditures, increases efficiency in revenue collecting, and maintains the credit rating of the local municipal government. If deficits increase, decisions concerning revenue and expenditure decisions get more complicated. In the era of population ageing the need for services increases and the importance of a budget grows significantly. (United Nations Human Settlements Programme, 2009, pp. 56-57)

This master's thesis takes an insight into the practices behind Finnish municipalities' budgeting decision-making. This issue has not received a lot of attention in the academic literature, so one could say that this research has a slightly pioneering nature. Furthermore, this thesis investigates whether the current budgeting decision-making practices could be improved by using a new kind of budget decision-making tool that is based on presenting multiple investment or divestment alternatives simultaneously to the decision makers as a frontier, rather than one by one. For the purposes of this study, the decision-making tool is called "Athena Tool". Furthermore, this thesis tries to find out how municipal decision-makers view the tool and whether they think there is a need and room for such a tool in the Finnish municipal budgeting and decision-making.

After the introductory chapter, this thesis continues with the identification and presentation of the current practices in use in Finnish municipalities and tries to identify problems within these practices. After this, the prob-

lems are examined, the proposed solution, Athena Tool, is introduced, and its merits as a solution to the prevailing problem are discussed. Finally, the solution is introduced to some municipal decision makers, the potential end users of the tool, and their opinions and observations are studied. The structure of this thesis can be seen in figure 2.

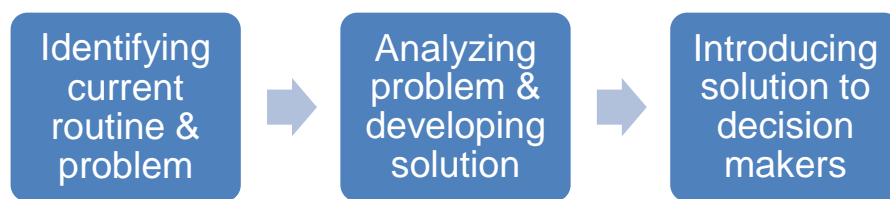


Figure 2. The structure of the thesis.

1.2. The Economic State of Finnish Municipalities

The total expenditure of Finnish municipal authorities is estimated to be 46 billion euro in 2013, which accounts for approximately 65% of the total public sector expenditure. The sector employs around 439 000 people. (Association of Finnish Local and Regional Authorities, 2012)

According to Vuorento and Kiander (2010), the Finnish welfare state is based on publicly funded services and transfers of income. One of the current principles has been to shift decision-making from central government to local governments, or in other words, municipalities. The noble idea behind this is to move the decision-making closer to the people, who are actually affected by it. Moreover, the number of public services financed by the central government has decreased and the quorum has been delegated. All these factors have led to municipalities having equal - or even more - power in economic decision-making compared to the central govern-

ment. On a global scale, Finnish municipalities have a relatively (relative to other countries) high number of obligatory tasks. Municipalities are in charge of welfare services, whereas the government deals with most of the transfers of income, common security, and legal system as well as mostly the higher education. Furthermore, local governments account for about one fifth of Finland's GDP and two thirds of the public spending in general. Perhaps the expression "welfare state" is no longer justified. (Vuorento & Kiander, 2010)

Over half of the costs of the Finnish municipalities, on average, come from the social and health care services (51%). Education and culture together is the second biggest expenditure object, with a portion of almost a quarter of the total costs paid by municipalities on average (24%). On the income side, nearly half of the income comes from tax revenues (46%). Other remarkable income sources are governmental distributions (19%), operating income (26%), and borrowing (5%). Figures 3 and 4 illustrate the distributions. (Vuorento & Kiander, 2010, pp. 133-134)

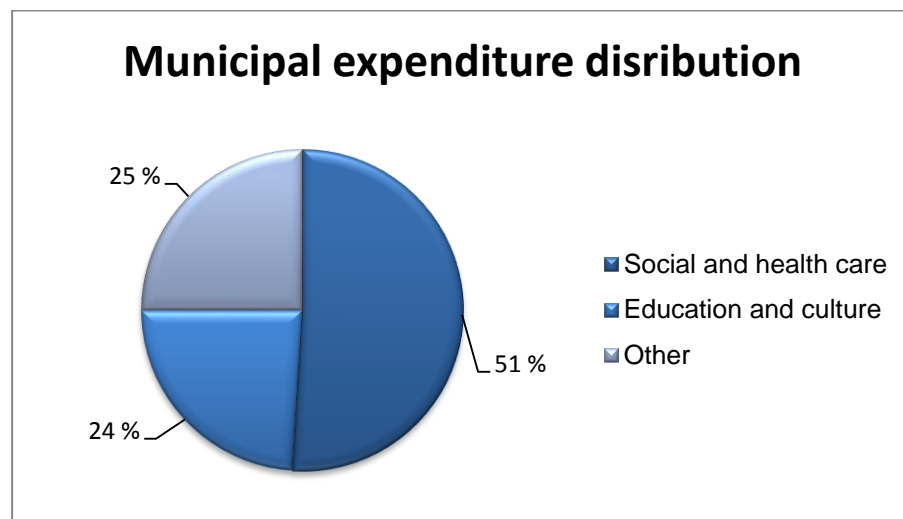


Figure 3. Municipal expenditure distribution.

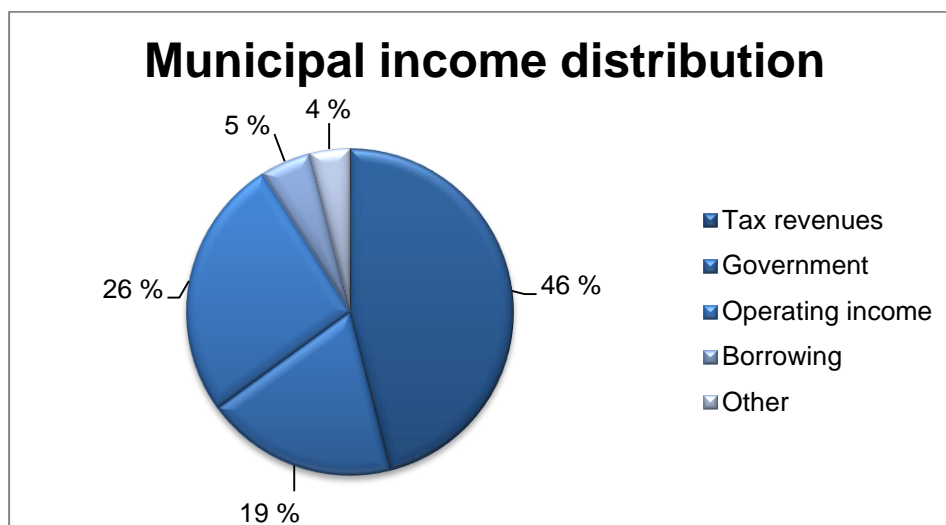


Figure 4. Municipal income distribution.

In the Finnish model local governments receive most (in 2010 about two thirds) of the wage taxes, whereas the central government's income mainly comes from taxing consumption. There have been a number of significant changes concerning municipal taxation ever since the mid-1990s. Tax deductions have been made to keep the purchasing power high. These deductions have mainly had an effect on municipalities' income. Although these losses have been compensated since 2003, the effective gap between tax rates and the actual incomes was grown to 5 percentage points in 2010. This happened because the compensations have not strengthened the municipalities financially. Additionally, municipalities play a big role in dealing with the costs of the ageing population; approximately half of the considerable economic effects of the phenomenon will be directed to local governments. All in all, the economical state of Finnish municipalities can be described as weak; the debt base has grown 2.5-fold in the past 10 years. The state of local government deficit development in the last few years can be seen in table 1. (Vuorento & Kiander, 2010, pp. 135-136, 146)

Table 1. Reporting of general and local government deficit in 2009-2013. (Finland, Statistics, 2013)

Net borrowing (-) (EUR million)	2009	2010	2011	2012	2013 (est.)
State government	-4250	-4455	-1539	-3662	-3825
Local government	-1181	-354	-1073	-2094	-1908

As can be seen from Table 1, both the state and the local governments have been net borrowers during the past years. Though the development has not been steady, the trend of municipalities' deficit has been growing. The negative correlation between the state and the local government deficit development implies that these two institutions are highly linked to each other.

Among the weak economic condition of Finnish municipalities, the population ageing will be a big challenge for both local and state governments. Economic independency is an incentive for municipalities to produce efficient services and to increase productivity. From the point-of-view of this thesis, the weak economic situation comes down to capital budgeting decision-making in local governments, as the loose legislation leaves them with a lot of authority to be in charge of their own economical state and to rather freely choose the way they plan their economy, including budgeting.

1.3. Objectives and Methodology

The main research question in this study can be formulated as follows:

- Is there room for an alternative method that presents alternative options simultaneously in the budgeting process?

The sub-questions of the main question in this study:

- How are budgeting decisions made today (2013) in Finnish municipalities?
- How legislation and given guideline affect the decision-making practices?
- Could the alternative method be used in the real-life decision-making situations in Finnish municipalities (practical relevance)?



Figure 5. Research objectives of the thesis.

The research method of the empirical part of this thesis is qualitative. The decision-making procedure is examined in a study of legislation, guideline, and valuated by examining the prevailing decision-making practices. The alternative budgeting method this thesis introduces is theoretically based on capital budgeting practices, and the need for it is examined via interview as the research method.

1.4. Focus of Study

Theoretically, the contents of this master's thesis consist of issues that have to do with the following:

- Municipal budgeting decision-making,

- The capital budgeting process, specifically in local governments' procedure,
- The Local Government Act (17.3.1995/365),
- The guideline provided by the Association of Finnish Local and Regional Authorities (2011), and
- The prevalent practices, that affect the decision-making procedure.

This thesis connects strategic management with finance and accounting. Strategic management targets to help managerial decision-making and aims at long-term success. Accounting refers to recording, summarizing and analyzing transactions. Correspondingly, finance includes macro- and microeconomic factors as well as human behavior in decision-making. The interaction between the three is illustrated in Figure 6.



Figure 6. The scope of study.

In practice, strategic management is linked to the study via strategic thinking, meaning that the link between strategy and budget is evaluated. Furthermore, the thesis is meant to be useful in managerial decision-making. Capital budgeting is theoretically linked to both finance and accounting. However, in this thesis budgeting in general links to accounting via record-

ing and analyzing transactions. In alignment, budgeting decision-making refers to finance as human behavior and different economic factors are taken into consideration.

The problem that this thesis focuses on rises from the current budgeting making practice. The problem is based on the Fiancée Problem, also known as the Secretary Problem. The concept of the Fiancée Problem was born in the late 1950's and the early 1960's among the mathematical community. In its simplest form the problem to be solved is about matters being in a queue instead of a line. Theoretically, the Fiancée Problem is about a person choosing a fiancée. Assuming the person wants to choose the best possible choice, the problem arises as an applicant once rejected cannot later be recalled (in other words, the applicants are formed in a queue instead of a line). Therefore, the solution to the problem is to put the applicants into a line so the person can choose the best possible fiancée. (Ferguson, 1969)

1.5. Limitations of Study

This research concentrates on Finnish local governments' budgeting decision-making. Hence, only Finnish legislation for municipalities and the guideline by the Association of Finnish Local and Regional Authorities are taken into concern. Central government's as well as European Union's roles and the reasons for the weak performance of local governments are excluded from this study. Furthermore, this thesis concentrates on traditional municipalities. Hence, municipal enterprises are left unnoticed.

1.6. Structure of the Thesis

This thesis can be divided into two parts: the first part examines budgeting decisions in Finnish municipalities, and the second part introduces the budgeting tool for municipal decision-making. Budgeting decision part

consists of an examination of current legislation concerning local government budgeting in Finland. Then it takes an insight into the guideline concerning these decisions given by the Association of Finnish Local and Regional Authorities. After this, a capital budgeting process is introduced from the theoretical aspect. In the next chapters, an alternative method is introduced and furthermore, a practical tool to present multiple options simultaneously in the budgeting decision-making process is created. The empirical part of this thesis is based on a qualitative study. It examines the underlying practices in the budgeting decision-making process and discusses the features of the alternative method.

2. LEGISLATION, GUIDELINES, AND PRACTICES

This chapter takes an insight into the forces effecting capital budgeting decision-making in Finnish municipalities. These forces consist mainly on two frameworks: Legislative part (Local Government Act) and a guideline provided by Association of Finnish Local and Regional Authorities. Since both of these frameworks are rather loose, local governments are left with a lot of room in their decision-making. Hence, settled practices have a notable effect on budgeting decisions. Legislation and guideline are introduced in this chapter whereas the practices behind budgeting decision-making are examined in the empirical part of this research (see chapter 6). Figure 7 illustrates the forces effecting municipal budgeting decision-making.

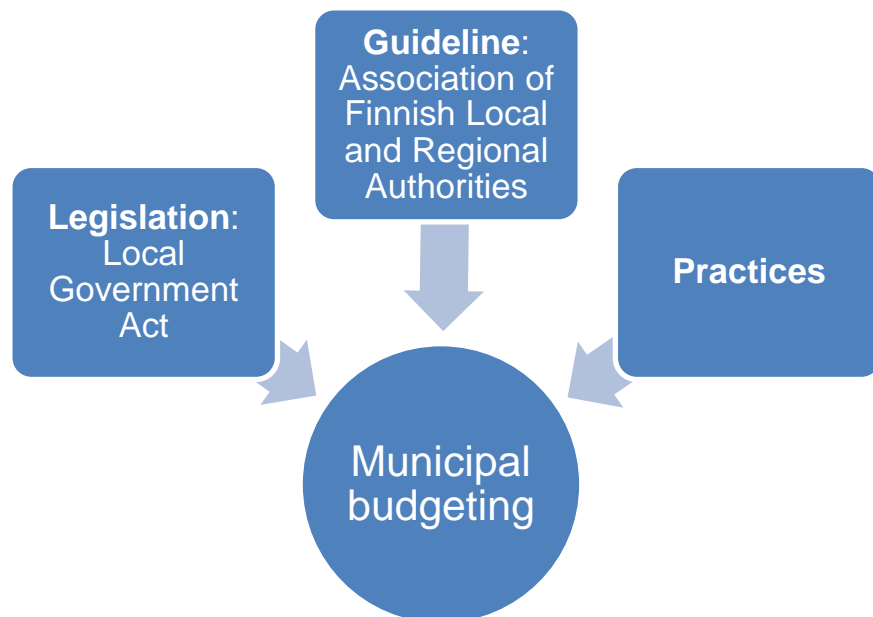


Figure 7. Forces effecting municipal budgeting decision-making. (Association of Finnish Local and Regional Authorities, 2011a)

2.1. Local Government Act

The current Local Government Act (Kuntalaki) in Finland was accepted as a part of Finnish legislation in 1995. Compared to the previous act, the

current one is less complicated and uptight. Recent changes have mainly concerned economic balancing and extensions leaving budgeting as it has been. This chapter takes an insight into the legislation concerning budgeting decision-making. (Harjula & Prättälä, 2007, pp. 5-7)

According to section 65 of the Local Government Act, the purpose of the budget is to provide comprehensive information about operational and economical state of a municipality for decision-makers and stakeholders. The structure of the budget should be similar than the financial statement, which both consist of segments for operational economy and income statements as well as segments for investment and financial statements. Furthermore, information in the budget should be comparable to information from other economic units. According to Harjula & Prättälä (2007), it can be interpreted that there is no detailed regulation about the structure of the budget since the legislation is based on the needs of the local government. However, there are some requirements for the budget. These requirements are introduced in the following sections. (Harjula & Prättälä, 2007, pp. 494-495)

Provisions concerning local government's budgeting are collected in sections 13 and 65 of the Local Government Act. According to the section 13, municipal council is in charge of municipal house holding. Municipal council makes decisions on main financial goals, decisions and approves proposed budget. By the end of the year, council must accept next year's budget and a budgeting plan for three or more years. Budget has to make clear how the municipality is about to meet up with given requirements and how the need for external financing will be covered. (Harjula & Prättälä, 2007, pp. 179-188; 493-515)

According to the sections 23 and 53 of Local Government Act, municipal board (in cooperation with the organ for each sector) is in charge of preparing the budget (Association of Finnish Local and Regional Authorities, 2011a, p. 7). According to Harjula & Prättälä (2007), the preparation process practices differ from city to city and town to town. Municipal board accepts frameworks for budgeting during the first months of the year. After this, municipal organs start to work on their propositions for the budget. These propositions already include initial drafts of usage. These propositions are accepted, or rejected by the municipal council. It is notable that the council has the authority to decide only on estimated income and allowance levels. One of the main research problems of this thesis is based on the separated objects. The organ preparing the budget and the actual decision maker are detached, which creates the so-called fiancée problem. This topic will be discussed further later in this study. (Harjula & Prättälä, 2007, p. 510)

In Finland a municipal economy must be in balanced within a period of four years after a negative year. If deficit in the balance sheet cannot be covered during the planning period, municipal council must set actions to balance the balance sheet in a separately set time period. (Association of Finnish Local and Regional Authorities, 2011a, p. 7)

A municipality is to follow the set budget, which can be interpreted as a way to guide and to keep an eye on the organs and the staff of the municipality (Harjula & Prättälä, 2007, pp. 493-515). Any changes in the budget can be made only by the municipal council (Association of Finnish Local and Regional Authorities, 2011a, p. 8).

The European Union has been tightening to control government house-keeping. This has had a major impact on both central and local govern-

ments. The purpose of these directives are balancing the public finance and to strengthen controlling it. (Finland, Statistics, 2013, pp. 28-29)

2.2. Guideline by the Association of Finnish Local and Regional Authorities

This chapter takes an insight into the propositional guideline provided by the Association of Finnish Local and Regional Authorities. Furthermore, the Basic Public Services Programme, which provides some guidelines into municipal housekeeping, is introduced. The previously introduced legislation is excluded from the guideline.

2.2.1. Main tasks and principles of a budget

According to the guideline, there are three main tasks for a budget. Firstly, it sets the goals for services and investment projects. Secondly, the estimated income and costs are budgeted for each function separately. Lastly, the budget is supposed to show how the operations and investments are financed. The structure of the budget is supposed to follow these three main tasks. (Association of Finnish Local and Regional Authorities, 2011a, p. 10)

The legislation imposes that a municipality must set goals for its actions and finance. Furthermore, these goals must be tied to their pointed resources. Yet the legislation does not say what the goals are supposed to be, or who sets them up. According to the guideline, the goals are supposed to be set in the way that they are applicable in the given resources. The goals can also be categorized in different ways. In an example provided by the Association of Finnish Local and Regional Authorities, the municipal council is in charge of setting strategic goals in cooperation with the municipal committee. Moreover, the executive board is in charge of

setting operational goals in cooperation with the branch administration. According to the guideline, the goals should be either quantitatively or qualitatively measurable. (Association of Finnish Local and Regional Authorities, 2011a, pp. 11-13)

The guideline gives directions for resource distribution. The main task for operations financed by the budget is to distribute incomes for different operational units. For operations financed by selling goods and services, the expected income functions as the basis for cost budgeting. These operations are often excluded from the budget. (Association of Finnish Local and Regional Authorities, 2011a, pp. 13,20)

Generally, municipal council has a lot of authority to decide about allowances in the budget. According to the guideline, allowances are mainly set task-specifically, so that the set goals and the resources allocated to achieve these goals can be combined in the budget. Tying up the goals with the given resources is executed on three levels:

1. The municipal council accepts the cost framework for budget-financed operations and income framework for operationally financed operations,
 2. The municipal council and the management board puts these frameworks into the budget as estimated incomes and costs, and
 3. The branch management ties the estimates and the goals together by making contracts with the external and the internal producers.
- (Association of Finnish Local and Regional Authorities, 2011a, pp. 16, 22-23)

The specific goals should not contradict with each other or with the municipal-wide goals. Additionally, the set goal should be relevant for the basic task of the operation. (Association of Finnish Local and Regional Authorities, 2011a, p. 23)

2.2.2. Composition and Content of Budget

According to the guideline, the budget should contain a general argument for the planned budget, which is justified from the points-of-view of the national economy, the municipal economy, and both regional as well as local economy. The argument should contain an overview of for example population development, employment rate, the need for new accommodation, and the progress of business activity both regionally and locally. Any changes in the legislation or new laws concerning municipalities are also to be introduced. Additionally, any major changes or needs for changes in the organization, the administration, the human resources policy or the joint operations of municipalities should be introduced in the general argument. (Association of Finnish Local and Regional Authorities, 2011a, p. 18)

The Association of Finnish Local and Regional Authorities recommend the municipal council to ratify a municipal strategy for the council period, or for a shorter period. Usually municipal strategy introduces vision, values, ethical principles, and strategic objectives for the municipality. A separate service plan should be created to concretize and to specify the development of the services in the municipal strategy. The service plan's goal is to secure the availability and the quality of services. Any other strategic plans such as human resource plan or equality plan should be introduced specifically enough with the municipal strategy. Any strategic plans that are accepted to the budget should be monitored by measurable characteristics during the planning period. (Association of Finnish Local and Regional Authorities, 2011a, pp. 18-19)

2.2.3. Preparing and Approving Budget

Preparing the budget is an annually recurrent process. The Association of Finnish Local and Regional Authorities have given a normative diagram of

the procedure, which is as follows. (Association of Finnish Local and Regional Authorities, 2011a, p. 61)

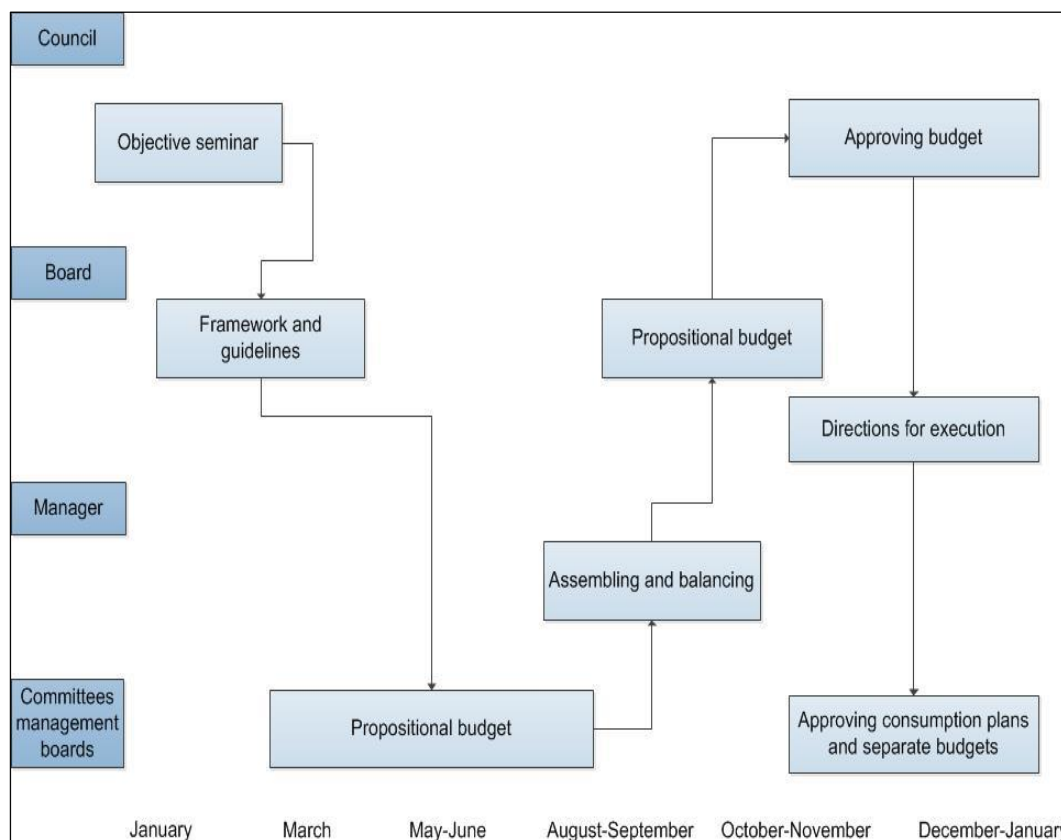


Figure 8. Propositional budgeting procedure and schedule. (Association of Finnish Local and Regional Authorities, 2011a, p. 61)

Processing the budget starts with an objective seminar. In the seminar, the needs and the goals for the improvements, as well as the economical state of the municipality are reviewed. (Association of Finnish Local and Regional Authorities, 2011a, p. 61)

The service strategy and the functional service plans accepted by the municipal council function as the basis for setting the goal and budgeting the resources. The strategy and the plans take into account the need for services, the sufficiency of resources, and the liaison with other municipali-

ties. As an option for producing services internally, the municipality can outsource the production to an external company or to another municipality. (Association of Finnish Local and Regional Authorities, 2011a, pp. 61-62)

Besides the service strategy and the functional service plans, municipalities should use the estimated and previous financial statements, and a valid economic plan as a basis for the income and cost framework. In the framework, the municipal board sets gross cost and gross income frames for the budget-financed tasks. Furthermore, it should set net income frames for the target-financed tasks. These are tied to the goals set in the service strategy and the functional service plan. Cost growth limits, income minimum levels, or service price limits can also be set in the framework. Among the framework, specific guidelines for schedule and tasks should also be set. (Association of Finnish Local and Regional Authorities, 2011a, pp. 61-62)

From the backbone of the framework, the different municipal organs prepare their task- and process-specific propositional budgets. Under the guidance of the municipal executive, these propositional partial budgets are assembled and balanced and presented as an entire budget. If some of the organs have crossed the given limits, or if the municipality's operations or housekeeping has significantly changed, the balancing budget proposition is handed to the municipal board. Balancing the budget is remarkably influenced by the central government's budgeting decisions concerning taxation, as well as the central government transfers to the local governments. (Association of Finnish Local and Regional Authorities, 2011a, pp. 61-62)

The municipal board prepares the final propositional budget and hands it to the municipal council to approve. There is no legislation concerning the schedule. However, the following year's municipal tax rates must be handed in to the tax administration by November 17th of each year. In practice, this means that by that time the final propositional budget must, de facto, be ready. The council has to approve the given budget by the end of the year. The approval is solved by plurality. If the propositional budget is not approved, it is then returned to the board. The number of reprocesses is unlimited. If the budget is not approved by the end of the year, the essential costs and incomes are yet to be carried out until the budget is approved. (Association of Finnish Local and Regional Authorities, 2011a, pp. 61-63)

After municipal council has approved the budget, the municipal board adds further executive directions and passes it to the committees and management boards. After this, the board, the committees, and the management boards approve plans for the consumption plans and separate partial budgets. (Association of Finnish Local and Regional Authorities, 2011a, pp. 61, 63)

2.2.4. Basic Services Programme

In the recent years, the central government has taken a major step trying to stable municipalities' revenues and expenditures by creating the Basic Public Services Programme (Ministry of Finance, 2013). The programme aligns the central government's main operations in relation to municipalities' resources. The basic idea is to include the most important issues concerning municipalities' housekeeping. Thus, the local governments are more aware of the upcoming (usually four years) changes in the alignments, and the actions the central government is planning for them. The programme is prepared cross-governmentally in the cooperation of the central government and Association of Finnish Local and Regional Author-

ities. Though it is not an actual guideline or legislative affair, it provides municipalities the chance to take central government's plans and upcoming changes into concern in their budgets. (Association of Finnish Local and Regional Authorities, 2008, pp. 10-11)

The requirements for the basic content of the Basic Service Programme are in the Local Government Act. The Programme should include:

- 1) An estimation of the changes in the operational environment and the demand for services,
- 2) An estimation of the development of the municipal housekeeping. Housekeeping is evaluated as an entity, as a part of the public finance, and by groups of municipalities,
- 3) An estimation of legal tasks' funding, developing, and productivity increasing,
- 4) An estimation of the changes in the municipal tasks, and
- 5) A plan for the actions needed to stabilize the incomes and costs. (Association of Finnish Local and Regional Authorities, 2013a)

3. MUNICIPAL CAPITAL BUDGETING

This chapter takes an insight into capital budgeting from the municipality point-of-view. Herbst (1982) described capital budgeting as capital investment and the analysis surrounding it. The focus of capital budgeting is on the alternative measures of project acceptability. However, the ideology of capital budgeting can be applied to fit the purposes of this thesis by considering municipal budgeting from the point-of-view of capital investing. In practice, this means that instead of choosing investment projects that enhance shareholder value of a company, the most important task for a municipality is to produce and execute a stable and an efficient budget. Hence, whereas traditional capital budgeting focuses on maximizing the value of a project and valuing methods, this thesis concentrates on the capital budgeting process. (Herbst, 1982, pp. 7-15)

According to Wendorf (2005), a capital budget has multiple objectives. They function as instruments of fiscal policy, as indicators for net worth of the public assets, and as exporters of the development. Previous research has shown that absence of capital budgeting leads to poor maintenance of the assets and overall poor management and performance of the major tasks among local governments. (Wendorf, 2005)

In order to make the best out of the budget, a capital budgeting guideline comes in handy. According to Götze et al. (2008), it should be built on the previous capital budgets, yet not on an ad hoc basis. Additionally, it should be linked with the organization's long-term strategy. The strategy will show the kinds of tasks and services organization wants to invest in and to be involved with, so propositional projects outside strategic outlines are unlikely to gain support. Whatever the strategy is about, it should include the guidelines and the limitations of the nature of acceptable projects. The personnel in charge of developing and disseminating the budget should be

clearly aware of these guidelines. Traditional capital investment process, combined with strategic thinking is shown in Figure 9. (Götze, et al., 2008, pp. 8-10)

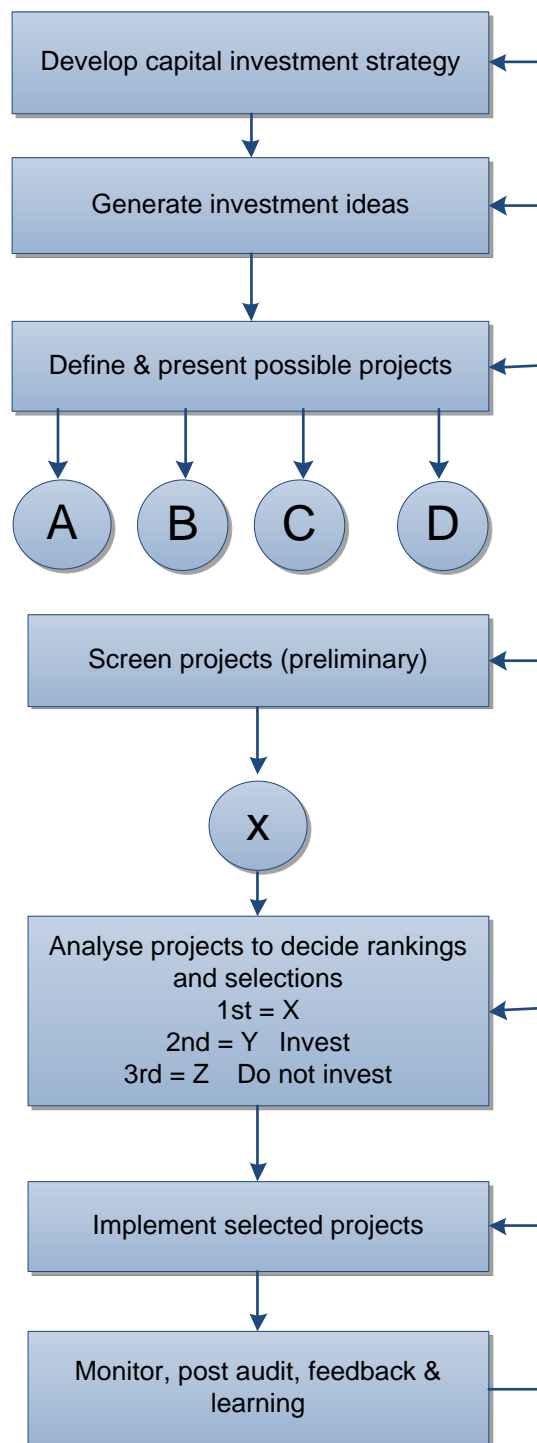


Figure 9. The capital investment decision-making process. (Götze, et al., 2008, p. 10)

As can be seen from Figure 9, after developing the strategy, ideas for the projects should be considered in advance of the expected investment, just

as the planned partial budgets are due in advance of the actual decision-making for local governments. Generating ideas and defining possible projects provide a major advantage in planning the capital expenditure according to strategic aims. In addition, financing can be arranged in advance which decreases the possibility of cash flow problems. The disadvantage of this part is that it creates inflexibility into the process. (Götze, et al., 2008, pp. 10-14)

By now, the organization should have a decent idea of which investment options exist, and about their costs and benefits. However, not all of them are going to be profitable projects. That is why a preliminary screening of the investment projects is needed. At this point, a first decision about which projects will be considered seriously should be made. This can be applied to the municipal budgeting decision-making in the way that at the screening stage preliminary options (A, B, C, and D) are being considered seriously for the first time. At this point clearly not viable projects are being excluded or modified. At the simplest level, screening is based on a qualitative evaluation of the proposals. When organization moves forward to the next stage - analyze projects to decide rankings and selections – the propositions are ranked from one to four in the order of preference (assuming none of the options is excluded). The options should be ranked via a sophisticated financial and risk analysis. (Götze, et al., 2008, pp. 14-16)

Once the final choices are decided upon, the planning phase is complete. Further decisions and actions remaining in the procedure ensure that projects and processes are implemented in the best possible way. This means that they ought to be effective, and the organization should be able to compare the outcomes with its strategic goals. (Götze, et al., 2008, pp. 16-19)

Wendorf (2005) took a project-based perspective on the municipal capital budgeting process. He introduced a five-step program to successfully implementing a capital budget: planning, evaluation, decision-making, assessing project risk, and project monitoring, controlling, and examination. Before introducing the steps further, a well-considered process and policy must be set up as the basis for a successful capital investment program. This includes setting up a policy, a facility master plan, and a capital improvement plan. (Wendorf, 2005, p. 77)

Planning the capital budget starts with defining who is in charge of developing it and who is involved in the decision-making process. Essential financial policies affecting the capital budget are to be developed. These policies should include the percent of the annual budget to be committed to the capital improvements, limits on the annual debt as well as the total debt. Furthermore, a capital project should be defined and a budget calendar, that specifies expectations for the schedule, created. (Wendorf, 2005, p. 77)

The next step, evaluation, takes place as the departments try to sell their projects by showing a direct correlation between the strategic objectives and the capital plan. The municipal administrators should have determined what gets included and how the projects are evaluated and ranked. In addition, a cross-departmental capital improvement team should be formed to assess the requests for timing, cost consideration, life-cycle costs, and preparing the capital improvement plan recommendations to the strategic budget process. The purpose of the team is to help evaluate the most critical projects of the budget for each budgeting period. (Wendorf, 2005, pp. 78-79)

The third step is the decision-making assessing project risk. Determining the project risk should include factors such as the state of economy (local and national), the interest and the exchange rates, the effectiveness of the project management system, and the sufficiency of possible insurance. Any changes in these factors among others may have a significant effect on the budget intent and outcome. (Wendorf, 2005, pp. 80-81)

Steps four and five are about the project monitoring controls and examination. The project controls are necessities ensuring that costs and schedules are sufficient and reliable, process statuses are observed and documented, and contractors, engineers, and others are addressing technical issues. Evaluating the budget and the project performance seems to be the most forgotten aspect of the capital investment in municipalities. However, the benefits widely outweigh the costs. Evaluation may improve future procedures and decisions as well as implementation. Empirical evidence suggests that every third project is over its budget or behind its schedule. Most of these problems could be avoided if the holders better knew the risks and applied proper controls while monitoring the project before, during, and after it is completed. (Wendorf, 2005, pp. 81-82)

A combined guideline for the decision-making process by Götze et al. (2008) and Wendorf (2005) applied for local governments is presented in the following figure.

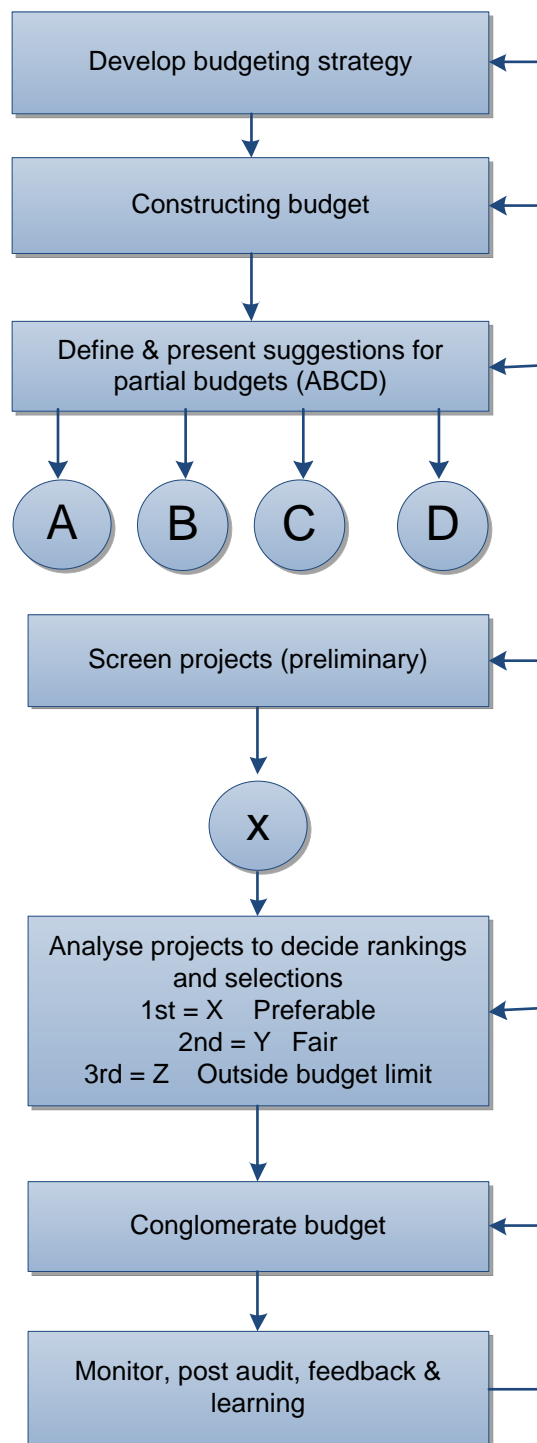


Figure 10. The budgeting process for local governments (adopted into the Götze framework)

In Figure 10, a propositional budgeting process for municipalities is presented. The strategic approach ensures that the budget is planned according to the strategic goals and decisions are based on a direct comparison

between rival projects. In addition, strategic planning helps to arrange funding for the projects. Furthermore, there are fewer surprise expenditures to create cash flow problems. The problem with this approach is that the flexibility to respond quickly to changes may be reduced. (Götze, et al., 2008, pp. 10-11)

It is important to understand that the process presented is not the general budget; it is a budget or a partial budget for a specific process or task. As stated earlier in this thesis, these task or process-specific budgets are introduced to the municipal manager by committees and management boards. The municipal manager is in charge of assembling the budgets into a general budget and handing it over to the municipal board. After approving the final propositional budget the board introduces it to the municipal council, which has two choices: either approve or reject the budget. This is the point when the earlier introduced Fiancée Problem takes place. Since the municipal council can only either approve the budget or reject it, the council has no actual authority to affect the budget. This procedure leads to stiff and inefficient decision-making procedure.

Options A, B, C, and D in Figure 10 represent the solution for the fiancée problem. If the committees and the management boards would introduce multiple options (in this case four) for each task or process-specific budget, the council as well as the board could have a genuine authority to affect how the budget is formed. The strategic approach would be genuinely linked with available resources, which means that the processes or the tasks could be adapted to the general budget in the way that it fits both strategy and resources. To put it simply, cuts could be made where there is room and where it is strategically wise to make them.

According to Götze et al. (2008, pp. 16-17), municipality does not have to choose one option. Instead, the different options can be ranked in order of desirability. Once the final choice has been made, the implementation must be managed and executed well. Municipal board is in charge of implementing whereas the committees and the management boards approve implementing the separate budgets into practice. After this, monitoring and learning should happen in a dynamic and an open environment. (Götze, et al., 2008, pp. 15-21)

4. THE ATHENA TOOL AS AN ALTERNATIVE BUDGETING METHOD

This chapter introduces the new budgeting method for municipal decision makers. For the purposes of this study, the tool is called the “Athena Tool”. It is created to provide municipal decision-makers the opportunity to simultaneously choose between multiple options in their budgeting decisions, instead of either accepting or rejecting the proposed project or budget. This creates flexibility for the decision makers and enables them to detect the outcome of their decisions genuinely.

4.1. The Current Method and the Need for the Athena Tool

There are three previously introduced forces affecting municipal budgeting decision-making in Finland: the Local Government Act, the guideline provided by the Association of Finnish Local and Regional Authorities, and the prevailing practices. The Local Government act is based on the needs of the local government. Hence, there is no detailed regulation about the structure of the budget. However, there are requirements for the budget given by the Local Government Act as well as the guideline. The propositional budgeting process provided by the Association of Finnish Local and Regional Authorities is presented in Figure 8. As can be seen from the figure, the guideline suggests that the committees and the management boards hand out their suggestive partial budgets to the municipal manager who combines and assembles the budget and presents it to the board to approve. After this, the budget is handed to the council. In all the inter-phases, the decision makers are left with two options: approving or rejecting the proposed budget. The problem that arises with this two-option procedure is the previously introduced Fiancée Problem. The alternative budgeting method, the Athena Tool, was created to remove the Fiancée Problem by providing decision makers the possibility to see different alternatives simultaneously.

The alternative budgeting method aims to provide a simple and a structured way to provide the decision makers the possibility to be responsible of their decisions genuinely. Furthermore, the tool provides the possibility to easily see and compare the alternative options available. Lastly, the tool enables to link strategy with resources in the budgeting process.

The name of the tool, the Athena Tool, arises from the ancient Greek religion and mythology. Similarly, as Athena is the goddess of strategy, courage, mathematics, wisdom, and strength, the Athena Tool is a strategic tool providing economic strength and information with the aid of simple mathematics for managerial decision-making.

4.2. Alternative Method in Practice

The alternative budgeting method is applied into practice by creating a budgeting tool used in Microsoft Excel. Excel was chosen as the platform due to its easy usage and commonness. One of the goals of the research is to create a tool that is easy to implement and use; hence, the chosen platform ought to be already familiar to users.

In its simplest form, the Athena Tool was created to provide multiple options for an individual budgeting decision. For each decision to be made there would be multiple options – four in this thesis - provided to choose from. This single-decision level was then expanded to concern several budgeting decisions in the proposal budgeting sheet.

When creating the tool, applying multiple options into the proposal budgeting sheet was not a problem. However, the problem built up to be the

scale of how rigorously and profoundly the different options for the budget are established. Should the decisions be made on a grass-root level (for example single copy machine or employee level) or should the scale be bigger? Furthermore, should the different options be provided on the conglomerated budget for the whole organization or on a department-to-department basis?

The scaling problem was solved via considering the goals of the tool. The goal for the tool was set to be easy to implement and use in Finnish municipalities generally. This means that the tool is supposed to be adaptable for municipalities that differ in conditions such as size, practices, and economic situation. Hence, the scale should be different for different municipalities. So it was assumed that for example in smaller municipalities decision-making can be done on a more rigorous and profound basis than in bigger municipalities. All of the interviewees supported this assumption. The same solution was used for the other problem introduced above. Municipalities should be able to adapt the desired level of the different options method easily. Hence, the tool can be used on both organizational and departmental levels, depending on the municipality's need. Initial example sheets for municipal-level (more general level) and process-level (more detailed level) budgets are shown in appendix 1 and 2.

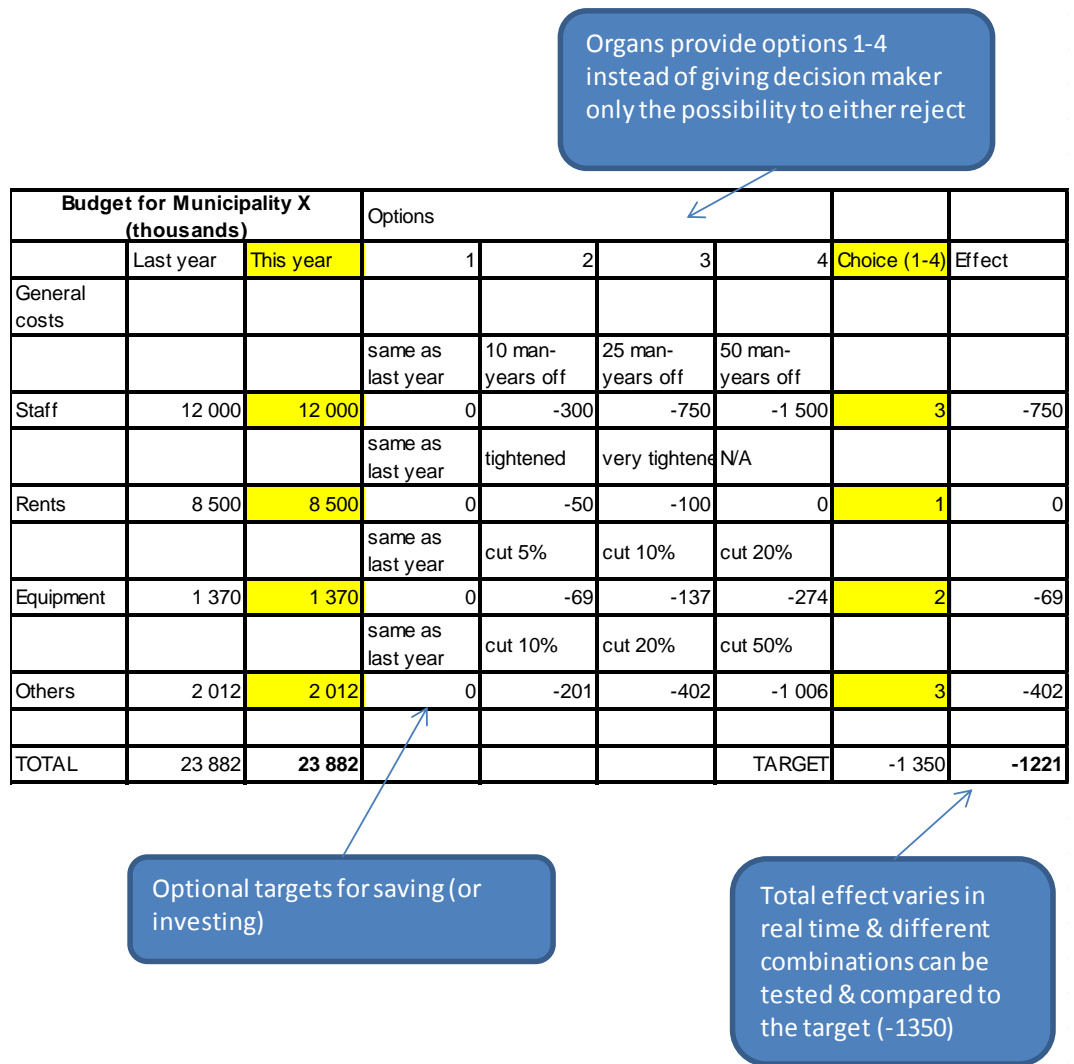


Figure 11. An example sheet of the Athena Tool in practice.

Figure 11 illustrates an example sheet of the Athena Tool in practice. In the example, this year’s budget is based on last year’s budget for each cost segment of the municipality (staff, rents, equipment, and others). Then, optional targets for savings (or investment opportunities) are shown in the options section (1-4). By changing the number in the yellow box in the “Choice (1-4)” column, the total effect varies in real time. Hence, different combinations can easily be tested in real time. Furthermore, these combinations can be compared with each other, and with the target number.

Even though the alternative method creates a budgeting tool for specifically Finnish municipal decision makers, it can be applied for the use of other budgeting decision makers as well. Furthermore, whereas this research concentrates on budgeting, the tool can be applied into investment decision-making as well. In fact, there are somewhat similar methods available for the investment decision-making already. For example, Magee (1964) introduced the idea of a decision tree as a decision-making tool, which provides a similar possibility to consider different options simultaneously. (Magee, 1964)

5. METHODOLOGY

This chapter takes an insight into the research methodology used in the empirical part of this thesis. Furthermore, this chapter evaluates the criteria about the selected interviewees, analysis of the data, and discussion about the data validity and reliability. In addition, general information about the cities and the association under examination are introduced.

5.1. Qualitative Research Method

The methodology of the empirical part of this thesis is interview. The research data material was collected from three interviews. Two of the interviewees are managers from Finnish municipalities (Luumäki and Lappeenranta) and the third interviewees are from a consulting public authority, the Association of Finnish Local and Regional Authorities (Kuntaliitto). The interviews were executed during August 2013. All of the interviews were recorded.

The type of the interviews can be described as semi-structured interview, which means that the interviewees were asked the same, previously decided questions. The interviews were open, meaning that new ideas and thoughts were allowed to be brought up during the interviews resulting from what the interviewees had said. Due to the open nature of the semi-structured interview, interviewees' interpretations and implications are matters of particular interest. Hence, questions were mainly directional and they stressed interviewees' personal experiences. Particularizing questions were asked whenever felt necessary. With the semi-structured interview, a deep overall understanding of the matters under examination was achieved. (Ruusuvuori, et al., 2010)

The main challenge when evaluating the interviews appeared to be the occasional issues from the interviewees. In a few cases, the issue was the interviewee's sluggish or blurry answer. Even though the nature of the interviews was to be open, in a few cases some of the answers were rather hard to interpret since the interviewee had understood the question and the particularizing question falsely. Luckily, these issues had to be dealt with only in a few occasions, and it can be stated that these issues did not have a significant effect on the results.

All the interviews were done in Finnish. An issue worth considering was translating the interviews into English for the purposes of this thesis. Some simplifications and changes were made due to slang used by the interviewee and the general understandability of the statements. However, the significance of these changes and simplifications was small and did not have a major effect on the validity of the research.

5.2. Selection and Introduction of the Interviewees

The most important criteria, when selecting the interviewees were based on high professional outlook on the covered topic. Municipalities of Luumäki and Lappeenranta were selected due to their location, highly regarded managers, and their differences in size and in economic situation. The Association of Finnish Local and Regional Authorities, located in Helsinki, was selected because it is a nation-wide consulting public authority with a wide understanding of Finnish municipalities. Furthermore, since the chosen municipalities are located close to each other, the Association of Finnish Local and Regional Authorities was selected as the interviewee to remove regional effects concerning budgeting decision-making practices. Figure 12 illustrates the locations of the interviews and the interviewees.

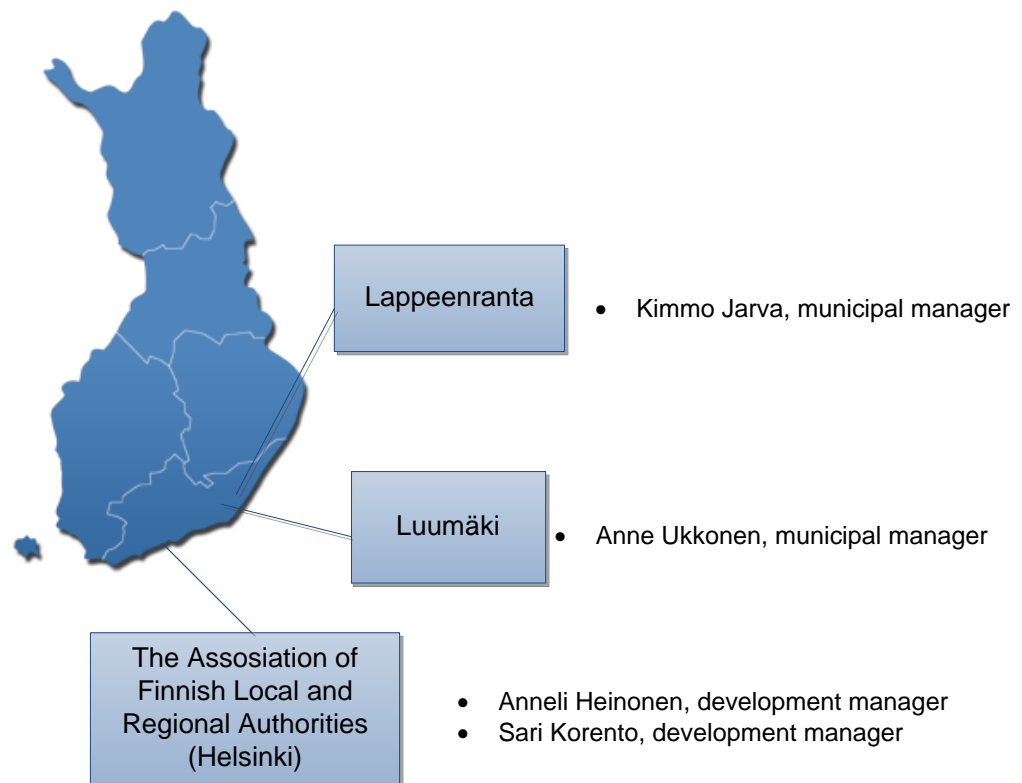


Figure 12. Locations of the interviews and the interviewees.

The Association of Finnish Local and Regional Authorities' main duties are lobbying, helping, and developing Finnish municipalities (Association of Finnish Local and Regional Authorities, 2013b). The association employs about 300 people, who mainly work as consultants (Association of Finnish Local and Regional Authorities, 2011b). The interviewees were selected to be Anneli Heinonen, development manager, and Sari Korento, development manager, due to their strong knowledge on municipality finance in general. The interview took place in the premises of the association on August 22, 2013. The interviewees' opinions were highly appreciated especially, when examining the budgeting practices in Finnish municipalities, whereas their interest in implementing the new budgeting method was left without attention. The interview was based on personal professional outlooks and they did not stand for official opinions of any political or administrative organization.

Luumäki is a small municipality located in the southeastern corner of Finland with 5200 inhabitants. It is known for its strong economy and low municipal tax rate, 18% (Luumäki, 2013). The interviewee for the research was selected to be the municipal manager, Anne Ukkonen. In addition to being highly regarded municipal manager, Ukkonen also has a background as a consultant, which gave her a wide overview of the municipal sector in general. The interview took place at the city hall on August 22, 2013. The interview was based on a personal professional outlook and it did not stand for official opinions of any political or administrative organization.

Lappeenranta is the 13th biggest municipality in Finland with over 72 000 inhabitants. It is located next to Luumäki in the southeastern corner of Finland, but is in a very different economic situation. Lappeenranta is facing challenging environment with growing deficits (6 million € in 2012) and high relative indebtedness (72.6% in 2012) (Lappeenranta, 2013, pp. 1-5). The interviewee was selected to be Kimmo Jarva, the mayor. He has had a long and successful career in municipalities' management and provided a very wide professional outlook for the purposes of this study. The interview was based on his personal professional outlook and did not stand for official opinions of any political or administrative organization.

5.3. Interview Questions

This chapter introduces the interview questions used in the interviews. Furthermore, this chapter shows the link between the research questions and the interview questions showing how the chosen questions helped answering the research questions of thesis.

The list of interview questions translated into English can be seen in appendix 3. The questions were created and selected with respect to the research questions of this study. Questions 1-11 were chosen to help answering the first and second sub-question (How budgeting decisions are made today (2013) in Finnish municipalities, and how legislation and given guidelines effect on the decision-making practices?) of the thesis. Questions 12-19 were chosen to answer the third sub-question (Is it relevant to apply the alternative method into real-life decision-making situations in Finnish municipalities?) of the thesis. The main research question of this study (Is there room for an alternative method that presents alternative options simultaneously in the budgeting process?) was answered after summing up and analyzing the interviews in general. Figure 13 illustrates the justification of the interview questions.

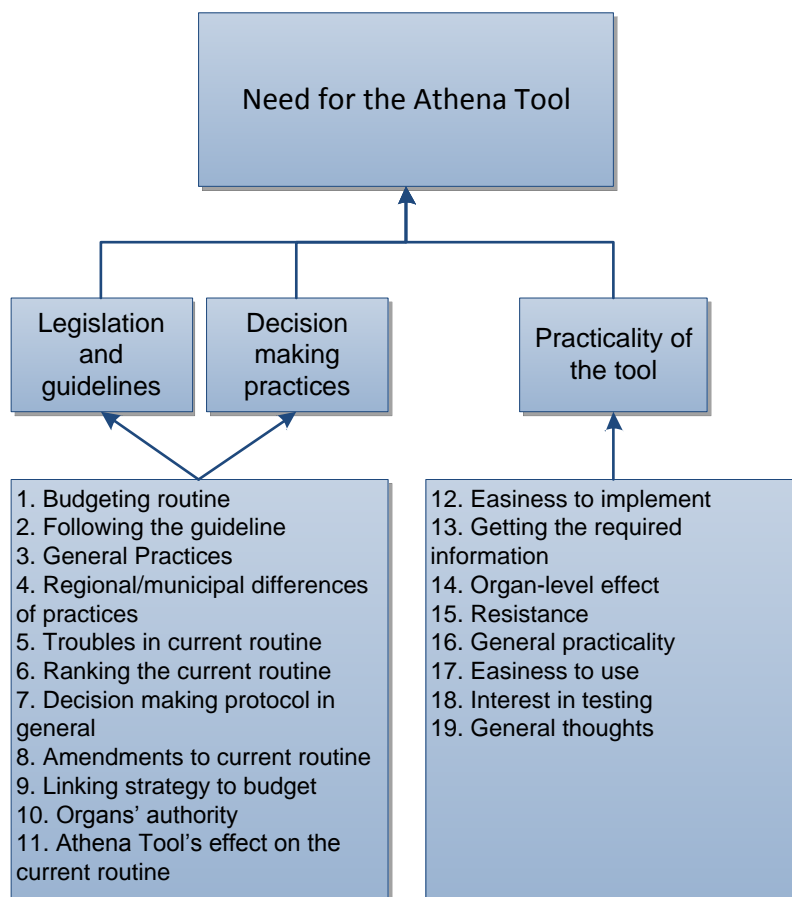


Figure 13. Interview questions' interaction with research questions.

5.4. Data Analysis

The data analysis was based on the dialogue between the interviewee and the interviewer. Interesting, relevant, and informative data were raised from the interviews and reflected with the theoretical background. Since there are few equivalent researches on the topic, the goal is to provide a benchmark about the Finnish municipal budgeting decision-making practices, and to find out whether the alternative budgeting method is useful in the decision-making procedure.

5.5. Reliability and Validity

In a qualitative study, the systematic analysis and the soundness of the interpretation are of importance when it comes to reliability (Ruusuvuori, et al., 2010, pp. 26-27). Hence, all the principles guiding the analysis are shown to improve the reliability of the research. Furthermore, non-anonymous data is presented to increase the reliability of the research.

Validity in a qualitative research means valuating the acceptance of the data and the interpretations (Ruusuvuori, et al., 2010, p. 27). The validity of the research was improved as the interviewees were shown the theoretical background of the study before the query. Additionally, many translated direct quotes by the interviewees are shown in the empirical part of this research. On the other hand, there was no benchmark data when forming the research questions, which can be seen as a validity lowering matter.

6. EMPIRICAL ANALYSIS OF BUDGETING DECISION-MAKING IN FINNISH MUNICIPALITIES

This chapter contains the empirical part of this thesis. It is based on the formerly introduced interviews and their interpretations. The chapter aims to establish a basis benchmark on municipal budgeting decision-making practices in Finnish municipalities. Furthermore, the alternative budgeting method was introduced to the interviewees and examined whether the tool created based on the alternative method is relevant and ready to be implemented as a part of municipal budgeting decision-making. Lastly, initial interest in attending a real-life trial run with the tool was inquired.

The questions were presented to the interviewees after introducing the relevant theoretical part of the thesis. After this, the alternative method and the Athena Tool were presented to the interviewees.

6.1. Current Budgeting Practices in Finnish municipalities

“The guideline is more or less strictly followed in Finnish municipalities.”
(Heinonen & Korento, 2013)

According to Heinonen and Korento (2013), even though the budgeting practices probably have never been properly examined in Finland, the guideline provided by the Association of Finnish Local and Regional Authorities seems to be closely followed in Finnish municipalities. Municipal board decides about the framework and guideline, which acts as a basis for committees' and/or management boards' propositional budgets. The propositional budgets are then modified and reworked between the committees and/or management boards and the municipal manager. After that the municipal manager and the municipal board work on the propositional

budget before a final propositional budget is handed over to municipal council to approve and execute.

“Major differences are usually time and size-related. However, the general idea is same in almost everywhere.” (Heinonen & Korento, 2013)

Major divergences from the guideline seem to be chronological, according to Heinonen and Korento (2013). Big municipalities usually start the process earlier than smaller ones. In addition, since municipalities are in different economic situations, balancing the budgets differ from municipality to municipality.

On the other hand, divergences have similarities. The framework and guideline are usually created during the spring, regardless of the size of the municipality. Furthermore, municipal tax rate is usually decided in mid-November in every municipality due to the legislation. Lastly, there seems to be a “learning from neighbors” mentality in some, especially small, municipalities. This means that there are some similarities in the budgeting practices located geographically close to each other. However, these similarities vary from region to region and as the interviewees stated, they have never been properly examined. (Heinonen & Korento, 2013)

“In Luumäki we closely follow the guideline provided by the Association of Finnish Local and Regional Authorities.” (Ukkonen, 2013)

According to Ukkonen (2013), the municipal board accepts the framework for the budget and hands it over to the civil servants. The civil servants give their own propositional budgets for each task, and the director of ad-

ministration assembles them. This is when the initial budget is established, which is then approved by the municipal director. After this, the propositional budget is approved by the municipal board and by the municipal council.

Due to the strict following of the guideline, there are no significant practices in the budgeting decisions at Luumäki. Even though the guideline is loose, it provides a good basis from both chronological and process-based points-of-view. (Ukkonen, 2013)

“Eksote is probably the only majorly unifying the process here.” (Ukkonen, 2013)

When asked if the practices differ city-specifically or regionally, Ukkonen took a rather neutral stand. Management’s personal links and for example unified health care services (Eksote) between two or more municipalities seem to create similarities in the process. Otherwise, there seem to be no significant unifying elements. (Ukkonen, 2013)

“Even though I have never seen this picture in my life, our practice is very similar with it.” (Jarva, 2013)

The budgeting practices in Lappeenranta are close to the framework, even though the mayor, Kimmo Jarva, had never seen it before. The civil servants receive their framework usually in June and hand their propositions to the city management in September. After processing the propositions, a conglomerated propositional budget is handed to the board. The final budget is approved in November together with the municipal tax rate.

“In Lappeenranta the civil servants have more discussions, than what I had been used to.” (Jarva, 2013)

According to Jarva (2013), no areal differences occur in the process chronologically. However, there are some city-to-city differences among the independence of civil servants. In Lappeenranta, the civil servants work independently within their field, yet go through many discussions with the municipal management. Furthermore, a new process is under trial this year. The process includes two sessions with the board instead of one. In the old process, the municipal budget was handled in one session. In the new process there are separate sessions for income statement concerning the municipality as a whole, and for industry-specific investment statement. (Jarva, 2013)

6.2. Developing Budgeting Practices in Finnish Municipalities

“Measuring the goals and the processes universally seem generally to be the biggest challenge.” (Heinonen & Korento, 2013)

According to Heinonen and Korento (2013), the current budgeting system in Finnish municipalities is overall good. The biggest problem seems to be consolidating the operational and economic processes, or to set goals and processes in the way that they can be measured. However, the development in the process has been positive during the recent years, as a number of tools have been developed and introduced to help the decision-makers to evaluate the effects of their decisions better. Another major

problem seems to be merely related to the lack of funds instead of the actual process development. (Heinonen & Korento, 2013)

The current budgeting system is rather stable, according to Heinonen and Korento (2013). The major recent changes in the system are involved in the increasing number of municipal corporations. As the size and the responsibilities tend to grow, these corporations tend to be stiff and slow; strategy is usually not linked well with operations. The challenge is to create flexibility and efficiency among these organizations; privatizing operations is not enough.

“Lack of understanding and creativity stands in the way of progress - ... - Politicians can rarely see the multiplicative effects of their decisions.”
(Ukkonen, 2013)

Ukkonen (2013) sees the current budgeting process as good, though there is a lot to learn. Balanced Scorecard has been recently implemented into the municipality's strategy. This has led to the situation where the Balanced Scorecard, the budget, and the financial statement are in bits and pieces, lacking synchronization. Furthermore, indicators for different actors' performance is needed to see how well for example the municipal council has performed during a given time period. The problems in the development of the current budgeting process seem to be related to the lack of understanding, or creativity. On the other hand, civil servants are able to provide new ideas. However, finding innovative solutions seems to be an issue, and too often things are done in an inefficient way just because they always have been in that way. Politicians seem to be unable to understand the multiplicative effects of their decisions and furthermore, unable to even understand the basic principle of capital scarcity when making promises for the budget.

When speaking about the development of the budgeting principles, old manners seem to die hard. In a small municipality like Luumäki, changes in personnel seem to function as the main kick-starters for changes in the budgeting principles. Another thing that seems to define the municipality is the political nature of the investment or budgeting decisions: even unplanned, merely lobbying investment decisions have been forced through as one party has the simple majority in voting rights. (Ukkonen, 2013)

“Such a variety of different people with different ideologies and backgrounds complicate the development of processes.” (Jarva, 2013)

According to Jarva (2013), the current budgeting system is rather good in Lappeenranta at the moment. The biggest troubles are related to the political processes. As a big municipality, the decision-makers come from many different ideologies and backgrounds. Many compromises are constantly being made. The second main problem with the current system is that the incomes and the estimates differ more and more constantly. The process itself is rather a routine, even though every municipality has its own routine.

There is a somewhat similar tool used to make cuts in Lappeenranta already. Cuts are divided into three different “baskets”. Easily fulfilled cuts are in the first basket and less easily fulfilled in the second and the third baskets. The different cuts in the first basket are in addition given different options based on the amount cut from it. In every different option, there is a description about the cut and its effect. The descriptions are important not just for decision-making but also that the municipal citizens would understand the reasoning behind the decision. (Jarva, 2013)

6.3. Linking Strategy and Budgeting in Finnish Municipalities

“Municipalities pay a good amount of attention to strategy nowadays.”
(Heinonen & Korento, 2013)

Strategy is linked well with year-to-year budgets in Finnish municipalities. The development has been rather fast; for example, the latest guideline (published in 2011) was the first one actually to highlight the importance of strategy in the budget. Furthermore, the municipal audit committee has been pushing the municipalities to pay more attention to strategy. A policy where implementing the strategic goals are presented in the annual budgets has been gaining more and more popularity. On the other hand, the elbowroom for linking strategy and budget is up to the economical state of the municipality. If a municipality is facing difficulties in its housekeeping, the central government officials have more control on the municipality when compared to an economically healthy municipality. (Heinonen & Korento, 2013)

“This tool would automatically link strategy with budget.” (Ukkonen, 2013)

The strategy not tightly linked with the budget in Luumäki. The political nature of strategy is merely promising everything and not cutting anything out. This implies that there is a significant need for the budgeting tool, since it automatically links the strategy and the resources with one another. It is simple science that in order to attain a balanced budget, something must be cut out before something can be added.

“Strategy functions as a guide and a directive tool, but here are simply too many operational goals to hold it all together.” (Jarva, 2013)

The strategy is averagely linked to the yearly budget, according to Jarva (2013). The strategy has been leading the budgets and given them some direction. However, there are too many operational goals to keep it all together. In addition, as the strategy is created on a four-year basis, it seems to be often forgotten, when moving further from the creation point. On the other hand, the upcoming strategy renovation is supposed to concretize it as municipal citizens have had an effect on it as well as different committees have been working across their departments to unify the principles behind the strategy.

6.4. Implementing the New Budgeting Method for Budgeting Decision-making in Finnish Municipalities

“Implementing the tool for council level would be practically impossible.” (Heinonen & Korento, 2013)

According to Heinonen and Korento (2013), it would be hard to implement the tool for the highest levels. According to the Local Government Act, if the council wants to make any changes to the budget, the board has to congregate in order to adapt these changes. Since the budget is already almost finished, presenting multiple options is not relevant at this point anymore. Then again, the interviewees did not see how the tool would not work on the board level and especially on the committee and the management board level. The tool would suit really well especially on the preparation level.

“There could be an explanatory textbox signaling side effects of decisions.” (Heinonen & Korento, 2013)

Heinonen and Korento (2013) saw that the tool would be easy to implement especially as an elucidating tool as long as the options are clear and the cost effects are brought out clearly. In addition, it would be good to show social and other effects of the decision. Hence, an additional text box in the Excel sheet stating the effects of each decision (social, multipliable, and other significant effects) could be added into the tool. The operational goals concerning each decision should also be declared in the text box, since these goals should go together with resources when budgeting decisions are being made.

“The operational level where the tool is applied would be the biggest challenge when implementing it.” (Heinonen & Korento, 2013)

The tool could be applied for the earlier stages in the process as well. For example, the committees and the management boards could choose from multiple options in the earlier phase where they receive the framework and the guidelines from the board. Lastly, the levels for the tool should be decided. In small municipalities, partial budgets could be divided into very small fractures (“copy machine level”) so that the decisions could be made on grass roots. In big municipalities, this would not work due to the costs and difficulties that the practice would arise. Hence, the partial budgets would be considered from more strategic point-of-view, meaning that the decisions would be simply on a bigger scale. Implementing the tool would be beneficial for municipalities but only if the right level is found. The interviewees saw the level of the tool as the biggest problem when implementing the tool. How and who would decide about that? (Heinonen & Korento, 2013)

Any change resistance could be expected from committees since their workload would increase and quorum decrease. Boards and mayors would on the other hand presumably welcome the tool since their quorum would increase. The tool is rather simple as it is, though there are not many equivalent tools to be compared to. (Heinonen & Korento, 2013)

“I am predicting people would welcome the tool gladly as a part of our organization.” (Ukkonen, 2013)

Ukkonen (2013) saw the need for the tool especially in department specific level, since some similar simulations are done in the municipality at the moment. Implementing the tool would be rather easy to implement. Resistance would probably be small because the atmosphere has been static, and people may have even expected some change in the system lately. The information exists already, so the implementing costs would be petty. The biggest advantage would be that the tool helps to see the big picture in budgeting and to see the causalities of budgeting decisions. Ukkonen stated her interest in testing the tool in practice in the city of Luumäki.

“The tool seems to be easy to implement, understand, and practical as long as the different options and their effects are explained well enough.” (Jarva, 2013)

The tool is generally easy to implement, easy to understand, and already practical. The main issues are making sure that the different options and their effects are explained well enough. It is important to notice that these issues are discussed in any case, with or without the tool. The difference is that with the tool a simple and an illustrating way to do so would be pro-

vided. Jarva stated his interested to test the tool in practice in the city of Lappeenranta. (Jarva, 2013)

7. DISCUSSION AND CONCLUSIONS

This master's thesis sheds light into the budgeting decision-making practices in Finnish municipalities. Furthermore, this thesis aimed to find out whether an alternative budgeting method and a tool based on the method would be of use in Finnish municipalities. Lastly, the interest to be a part of testing the tool in a practical real-life scenario was inquired from the interviewee municipalities' representatives.

This chapter summarizes the results and findings of this thesis. First conclusions are summarized with respect to the research questions of this study before discussing the limitations of the study and the suggestions for further research.

7.1. Conclusions

The main research question of this study and the answer to it according to the results of this thesis:

- Is there room for an alternative method (Athena Tool) that presents alternative options simultaneously in the budgeting process?

The interviews suggest that a tool, such as the Athena Tool, that shows multiple alternatives simultaneously to the decision-makers is likely to be useful in Finnish municipalities. The tool and the alternative method based on it were praised. It would provide an easy and direct way to see the effects of the budgeting decisions. Furthermore, it would automatically help linking the strategy and the budget.

The sub-questions of the main question in this study and the answers to them according to the results of this thesis:

- How budgeting decisions are made today (2013) in Finnish municipalities?

According to the results of the study, the budgeting decision-making routine closely, though not always purposely, follows given guidelines and legislation. The municipal boards decide about the framework and the guideline, which act as the basis for the committees' and the management boards' propositional budgets. The municipal managers in association with the committees and the management boards modify the propositional budgets. After this, the municipal managers hand the propositional budgets to the municipal boards. Lastly, the municipal boards hand the final propositional budget to the municipal courts to approve and execute.

What comes to the development of budgeting practices, the current system is seen to be good even though an alternative method providing different options simultaneously would be warmly welcomed. Furthermore, linking strategy and budgeting has been under scope in the recent years. There are some tools created to better the linkage, yet there is room to improve.

- How legislation and given guideline effect on the decision-making practices?

The interviews suggest that even though there is a lot of room in the budgeting decision-making process, decision-making in Finnish municipalities closely follows the given guideline provided by the Association of Finnish Local and Regional Authorities. As the legislation is the basis for the guideline, it does not have an effect on the decision-making practices per se.

Any divergences from the guideline seem to be mostly petty and related to chronology rather than processes. Some regional differences may occur, but they are usually related to structural similarities, such as unified health

care service. In addition, size-related differences seem to occur. Furthermore, small municipalities are structurally flexible, but they tend to be exposed to strong personal influence of the decision-makers. Big municipalities are less flexible, but seem to be more conforming to changes.

- Is it relevant to apply the alternative method into real-life decision-making situations in Finnish municipalities?

All interviewees would welcome the Athena Tool as a part of municipal decision-making in Finland. The tool is seen as easy to implement and to understand. Furthermore, the tool seems to be practical as long as the different options, their effects, and the operational level are explained and justified.

Figure 14 illustrates the findings of this study with respect to the research questions.

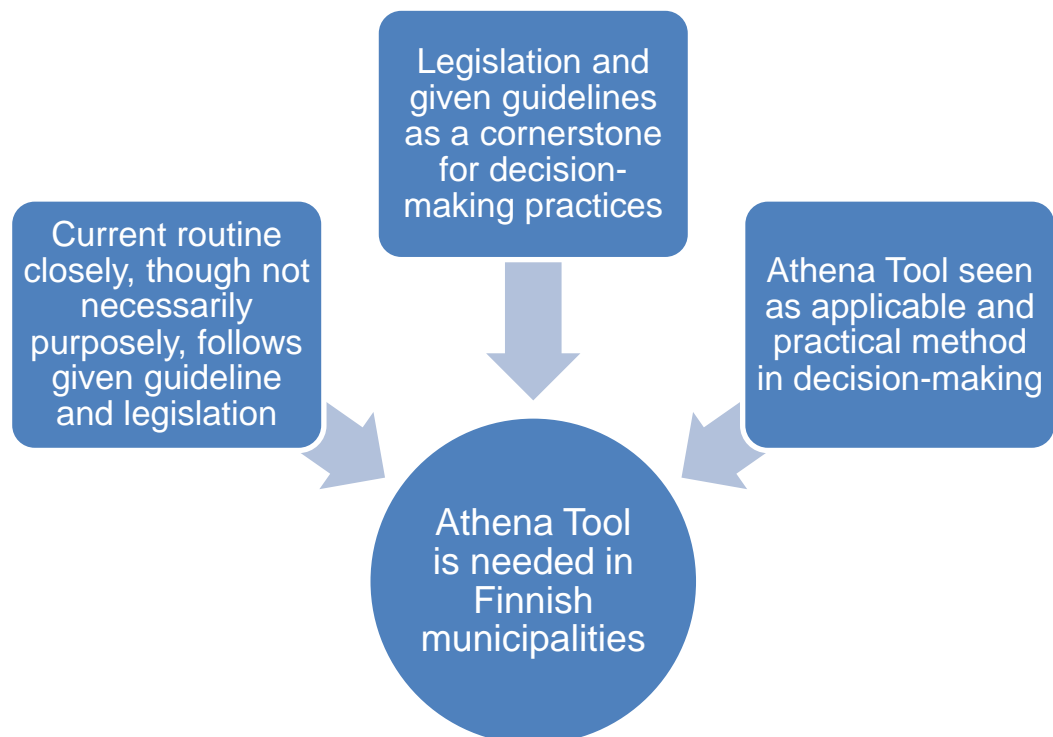


Figure 14. Main findings of the study.

In the current budgeting practices, the major problem seems to be the lack of understanding. Multiplicative effects of the budget-related decisions are apparently hard to understand and foresee among decision makers. Furthermore, even though strategic goals might be clear, measuring the performance and success to reach these goals is hard. Another problem standing out is the political nature of the budgeting decisions. Economic justification seems to be easily forgotten as political reasoning defines decision-making principles.

Any troubles might occur if the effects of each decision would not be defined closely enough or if the level of the implementation would be wrong. Both of the interviewed managers were interested in pilot testing of their tool in a part of their organization.

What comes to municipal budgeting in Finland, old manners seem to die hard. Inefficient structures are strictly followed, as economically naive politicians cannot see the actual effects of their decisions. Furthermore, if these structures are followed without properly examining the processes or economic efficiency, it is no wonder the municipal sector is in such a state. The budgeting process ought to be seen as something more than a political instrument. It should be seen as a way to put strategy into practice, to weight different options and to see their effects, and generally to stabilize the housekeeping in Finnish municipalities.

7.2. Limitations of Study and Suggestions for Further Research

The most significant limitation of this thesis is the lack of previous research about budgeting decision-making in Finnish municipalities; there was no benchmark to follow. Furthermore, this thesis studies budgeting decision-

making only from the cost point-of-view, leaving investment point-of-view without further attention. However, the Athena Tool suits for investment calculation as well.

Further research on the topic is needed. One interesting area would be to compare the efficiency of the underlying local government budgeting principles and reflect them with private sector or central government budgeting principles. Of course, the pilot version of the tool drew a high amount of interest among the interviewees and should be tested in a real-life scenario. How well the tool would actually fit the chosen municipalities and deciding the level of the implementation would both be very interesting topics for further academic research.

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Appendices

Appendix 1. Budgeting tool for municipal level.

Budget for Municipality X			Options					
	Last year	This year	1	2	3	4	Choice (1-4)	Effect
General costs								
			same as last year	10 man-years off	25 man-years off	50 man-years off		
Staff	12 000 000	12 000 000	0	-300 000	-750 000	-1 500 000	3	-750 000
			same as last year	tightened	very tightened	N/A		
Rents	8 500 000	8 500 000	0	-50 000	-100 000	0	1	0
			same as last year	cut 5%	cut 10%	cut 20%		
Equipment	1 370 000	1 370 000	0	-68 500	-137 000	-274 000	2	-68 500
			same as last year	cut 10%	cut 20%	cut 50%		
Others	2 012 000	2 012 000	0	-201 200	-402 400	-1 006 000	3	-402 400
TOTAL	23 882 000	23 882 000				TARGET	-1 350 000	-1 220 900

Appendix 2. Budgeting tool for process level.

Budget for process X			Options				Choice (1-4)	Effect
	Last year	This year	1	2	3	4		
			same as last year	0.2 man-years off	0.5 man-years off	1 man-year off		
Staff	311 325	311 325	0	-6 000	-15 000	-30 000	2	-6 000
			same as last year	tightened	decommission 1 estate	N/A		
Rent	75 420	75 420	0	-1 000	-35 000	0	3	-35 000
			same as last year	remove copier	remove copier & cut half of software costs	remove copier & cut all software costs		
Equipment	8 400	8 400	0	-800	-1 200	-1 600	3	-1 200
			same as last year	cut 10%	cut 20%	cut 50%		
Others	1 234	1 234	0	-123	-247	-617	2	-123
TOTAL	396 379	396 379				TARGET	-50 000	-42 323

Appendix 3. Interview questions.

Current routine and the background

1. What kind of a budgeting routine do you use in the municipality?
2. On a scale from one to five, how closely your municipality/Finnish municipalities in general follow(s) the guideline provided by the Association of Finnish Local and Regional Authorities? (1=not at all, 5=very closely)
3. What kinds of practices exist between the stages propositional budget and approving budget (Figure 8 in the thesis) in your municipality/Finnish municipalities in general?
4. On a scale from one to five, how much do you think these practices differ on a regional or on a municipal level? (1=no difference whatsoever, 5=practices differ completely)
5. What kinds of troubles occur in the making of the budget on a general level and why do you think these occur?
6. On a scale from one to five, how good do you think your/Finnish current budgeting routine is and why? (1=very poor, 5=excellent)
7. How are the decisions concerning cuts or investments made in your municipality/Finnish municipalities?
8. What kinds of amendments are proposed to the current routine and by whom?
9. On a scale from one to five, how well strategy links to the budget in your municipality/Finnish municipalities and why? (1=no link whatsoever, 5=very strong link)
10. On a scale from one to five, how strong would you rate the following organs' authority when it comes to budgeting decision-making and why? (How strongly pointed authority and actual authority correlate and why?) (1=very weak, 5=very strong)
 - a. Committees/management boards
 - b. Management
 - c. Board

d. Council

11. On a scale from one to five, how strong effect would the presented tool have on decision makers in your municipality/Finnish municipalities and what kind of effects would it have? (1=no effect whatsoever, 5=very strong effect)

Implementing the Athena Tool

12. On scale from one to five, how easy would it be to implement the Athena Tool into the organization and why? (1=very hard to implement, 5=very easy to implement)
13. On a scale from one to five, how easy would it be to get the information the Athena Tool requires and why? (1=very hard to get, 5=very easy to get)
14. Whose (organ) job would the Athena Tool have the most significant effect and how?
15. If implementing the Athena Tool, would you expect any change resistance, and if so, from who and why?

General opinion about the Athena Tool

16. On a scale from one to five, how practical the Athena Tool seems to be as it is and why? (1=not practical at all, 5=very practical)
17. On a scale from one to five, how easy to use the Athena Tool seems to be as it is and why? (1=very complicated to use, 5=very easy to use)
18. On a scale from one to five, how interested would you be to test the Athena Tool in a specific part of your organization (provided the education needed)? (1=no interest whatsoever, 5=very interested)
19. Share your views; any thoughts on the topic or about budgeting in general?