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Biographies

Douglas West is Professor of Marketing at the Birmingham Business School, University of Birmingham. Amongst others his publications have appeared in the European Journal of Marketing, the International Journal of Advertising, the International Marketing Review, the Journal of Advertising, the Journal of Advertising Research, the Journal of Business Research, the Journal of Forecasting and the Journal of Marketing Management. He is joint author of Direct and Interactive Marketing Oxford University Press, 2001and Marketing Strategy: Creating Competitive Advantage, Oxford University Press, 2006. He is Editor of the International Journal of Advertising.

Gerard Prendergast is Professor of Marketing at Hong Kong Baptist University. Before working in Hong Kong he held academic posts in the UK, Singapore, and New Zealand. His research interest is in the area of marketing communication. His publications have appeared in a range of international journals such as the Journal of Advertising, Journal of Advertising Research, European Journal of Marketing, Psychology & Marketing, International Journal of Advertising, and Public Relations Review.

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Abstract

Purpose – This study looked at the conventional wisdom with regards to budgeting methods, processes, and sophistication in light of recent macro work relating budgetary approaches to risk-taking.
Design/methodology/approach – Based on a survey of UK advertisers and personal interviews, current advertising and promotions budgeting methods and processes are summarized. A series of hypotheses relating risk, process and experience to advertising and promotions budgeting sophistication were tested.
Findings – UK advertisers were found to use a variety of budgeting methods (two methods on average per company). Judgmental methods dominate, especially the 'what is affordable' method, but at the same time more sophisticated methods like objective & task and measurement techniques (in particular ROI) were solidly represented. The relationship between budgeting sophistication and risk was investigated, the premise being that risk and budgeting sophistication are inversely related, as well as budgetary processes and marketing experience.
Research limitations/implications – Considerable insight is provided into the methods and processes being used. It is concluded that the explanation as to why firms use sophisticated or unsophisticated methods for setting their advertising and promotion budgets is largely related to organisational culture.
Originality/value – Just over 1.5 percent of the UK's GDP is spent on advertising and promotions (£19b). The study suggested that the primary reason for the lack of consensus on budgetary sophistication is that stakeholders involved with budgeting are far less concerned with specific methods than dealing with cultural norms, personalities, access to supporting data and policies and practices.

Keywords Risk, advertising, budgeting, sophistication

Paper type Research paper

Introduction

Recent work involving agency theory has completed a circular trajectory in advertising budgeting studies. Early studies highlighted the naivety of prevalent budgeting methods and often focused on the use of computers with an underlying assumption that with the advent of new technology practice would improve. This early work led to several studies examining organizational issues, perhaps out of frustration that organizations were not adopting more sophisticated methods. At the same time this work was being published, surveys of methods used began to indicate the wider use of more sophisticated methods such as objective & task methods. However, recent studies involving agency theory, however flawed in method, have suggested that many companies still use the affordable method. To what extent has practiced improved?

Advertising and Promotions Budgeting

Two sorts of prior investigation in the budgeting field have produced what might be termed the 'conventional wisdom' on the subject of advertising and promotions budgeting. Most prior studies of ad budgeting have focused on either (1) analyses of the methods used related to one or two main explanatory variables, or (2) analyses of the organization of budgeting and the implications for practice. Many common advertising and promotions budgeting methods are intuitive, traditional and have not been taught so much as observed and classified. To a great extent a messy business reality has been formalized and compartmentalized by researchers and it is best to keep this in mind in the following discussion. This is especially the case since studies have shown that organizations commonly rely on a combination of 2 or 3 budgeting methods. Table I provides an overview of the leading research on advertising budgeting.

Table I: Selected Research on Advertising Budgeting

Area	Year	Authors	Location	Sample	Main Findings
Method & Organization	1975	San Augustine & Foley	US	Top 25 B2C & Top 25 B2B	B2C more sophisticated/Finance & marketing execs disagree on many budgeting issues
Method	1977	Gilligan	UK	92 Large & Small Firms	Majority unsophisticated
Method/ Organization	1977	Permut	W. Europe	Top 50 B2C & Top 50 B2B	B2C more sophisticated/Marketing execs in Europe have more control than in the US
Method	1981	Patti & Blasko	US	54 Top Advertisers	Large firms are sophisticated
Organization	1981	Hanmer-Lloyd & Kennedy	UK	17 Large Companies	Information manipulated to alter budgets
Method	1983	Lancaster & Stern	US	60 Marketing Executives	Methods poorly applied
Organization	1984	Piercy	UK	12 Marketing Executives	Budgets a function of politics and power
Method	1984	Blasko & Patti	US	64 Top B2B Advertisers	B2C more sophisticated
Method	1985	Hooley & Lynch	UK	1,775 Marketing Executives	Larger & better performers are more sophisticated
Method	1987	Lynch & Hooley	UK	560 B2B Advertisers	Larger B2B advertisers more sophisticated than small
Organization	1987	Piercy (JA)	UK	130 Marketing Executives (medium-sized companies)	Budget size related to the power of the marketing department
Organization	1987	Piercy (JM)	UK	140 Marketing Executives (medium-sized companies)	Budget method and size related to the direction of the process
Method	1989	Lynch & Hooley	UK	536 B2B Advertisers	B2B increasingly sophisticated
Method	1989	Synodinos, Keown & Jacobs	15 Countries	484 Advertisers in Durable/non-durable Goods Markets	Different methods used in different countries
Method	1990	Lynch & Hooley	UK	1,380 Companies	Top performers more likely to use objective & task methods
Method	1990	Ramaseshan	Australia	126 Retailers	Generally ad hoc and unsophisticated
Method	1991	Hung & West	Canada, UK & US	100 Top Advertisers	Larger firms are more sophisticated
Organization	1991	Parry, Parry & Farris	US	130 Nonprofit Hospitals	Process has no effect on method
Organization	1993	West & Hung	Canada, UK & US	100 Top Advertisers	Type of process (bottom-up/top-down) affects the method chosen
Method & Organization	1993	Mitchell	UK	52 Companies	Objective & task prevalent - managers take account of organizational setting & power
Organization	1995	West	Canada	310 Marketing Executives	Large companies set budgets after sales forecasts rather than before or simultaneously
Method	1996	Fairhurst & Gable	US	74 Service companies	Predominant use of % of sales methods
Method	1997	Miles et al.	US	43 Farm cooperatives	Generally sophisticated sector
Organization	1999	Low & Mohr	US	21 B2C Managers	Institutional pressures affect media allocations
Organization	2002	Kissan & Richardson	US	2,763 companies from Compustat	Level of managerial ownership of a firm affects the use of affordability methods (agency cost theory)
Method	2003	Yoo & Mandhachitara	Thailand	2 Scotch brands	Competition spending need not be matched
Organization	2005	Supanvanij	US	198 companies	Executive compensation linked to spending
Method & Organization	2006	Prendergast, West & Shi.	China	206 companies	IJVs and top performers are more sophisticated

Risk-Based Model

The concept of risk has recently emerged as a possible explanatory variable for budgeting sophistication. Managers and owners often have divergent risk preferences. 'Prospect theory' (Kahneman and Tversky, 1979; Novremsky and Kahneman, 2005) states that most people are risk seeking when they are below their targeted aspiration levels. People decide where they think they should be performing and if they fall below this 'target' they are likely to become risk seeking. The reason is straightforward: taking risks offers the opportunity to get back on target quickly. Managers in companies performing below target have been found to conform to this pattern in a study by Fiegenbaum and Thomas (1988). This occurs regardless of the time period considered, the underlying environmental conditions or the size of the performance decrement involved.

How does this relate to advertising budgeting sophistication? Using less sophisticated methods could be construed as being more risky than using market-based and researched sophisticated methods. Therefore, the worse the performance of an advertiser relative to aspiration levels, the greater the likelihood of taking risky advertising and promotions decisions, which would mean the use of less sophisticated advertising and promotions budgeting techniques. By comparison, for a firm achieving its targets, why take risks when things appear to be going well? Therefore, more sophisticated methods should be used when things are going well. This leads to the first hypothesis:

H1: Advertising budgeting sophistication will be positively related to the achievement of the targeted aspiration levels.

A related issue is that owners generally diversify their shareholdings across a number of firms, whereas managers' livelihoods are normally bound to a single firm. Agency theory proposes that shareholders, holding a diversified portfolio, will want managers to take risks. Some will go badly wrong, but a few will pay off spectacularly and provide considerable gains. By contrast, managers tend to be more risk averse. If they take a risk, it may go badly wrong, so risks jeopardize their incomes and managers are less likely to favour taking risk than owners. The result is a form of 'agency cost' (the difference in expected value between the managers' low risk decisions and the owners' high risk preferred alternatives)[1]. According to agency theory, most managers do what is safest for them, and not always what is optimal or best for their organization.

In light of agency theory, Kissan and Richardson (2002) have suggested that the advertising and promotions budgeting relationship is nonmonotonic in that as management share ownership increases, overspending at first declines, then increases and then declines (an inverted 'U' relationship). The reasoning is that a small degree of share ownership initially aligns managers with owners, but as managers increase their ownership they find they can act without fear of the market. Finally, as share ownership increases further, managers again begin to merge their objectives with those of the owners. Supanvanij (2005) followed-up Kissan and Richardson's work with a study of the effect of stock options and CEO tenure, and reached similar conclusions. Managers whose wealth was tied to a company's long run performance spent more discretionary dollars on advertising than those whose wealth was tied to earnings – salaries and bonuses increase the likelihood of over-advertising. Newly appointed CEO's were more likely to invest discretionary spending in advertising than their longer-serving counterparts.

Relating the issue of ownership to process, it is clear why top-down and bottom-up processes should affect risk-taking differently. Piercy (1986, 1987a, 1987b) and West and Hung (1993) found that in top-down processes the budgeting was the least

[1] For a fuller discussion of this concept, see Chatterjee and Lubatkin (1990).

sophisticated and the affordable method was most often used. In bottom up processes, the budgeting method was relatively more sophisticated, and the objective & task method more popular. Piercy's (1986, 1987a,b) explanation was that marketing executives were usually required to justify their allocation of resources and to give details of their targets and tasks, whereas top managers could simply allocate according to what they believed the company could afford. Top-down processes would presumably lead to more risk-taking as senior managers and/or CEOs rarely risk any personal loss, whereas in bottom-up systems marketing directors prefer to document their analysis for security. For marketing directors influential in bottom up systems, risks jeopardise their incomes. In order to avoid such risks, such managers will opt for more sophisticated budgeting methods. This is consistent with Hanmer-Lloyd and Kennedy's (1981) finding that some marketing personnel were selective in their use of information to substantiate their objectives. H2 is offered:

H2: Firms with predominantly top down processes will tend to use less sophisticated advertising and promotions budgeting techniques than firms with bottom up processes.

It is to be expected that firms and individuals with more advertising experience might be expected to use less sophisticated methods. The mechanism can be expressed in terms of risk compensation theory (Wilde, 1988). This suggests that when there is less perceived risk, people take more risks. When there is a higher perceived risk, people take less risks. Eventually the interaction between perceptions and resultant behaviour results in a form of equilibrium: behaviour determines the amount of potential loss, and the amount of loss determines the behaviour. Applied to advertising and promotions budgeting, it is plausible that firms and individuals which have greater experience with advertising may be more accustomed to the variability of (financial) "injury" involved with the more traditional and (less sophisticated) techniques that most firms started out using. If there were to be an increase in the variability of injury resulting from using these techniques, then they would perceive these less sophisticated techniques as being too risky and would change to more sophisticated techniques, but the resultant reduction in variability in injury would cause them to become complacent and increase their risk taking behaviour, migrating back to the less sophisticated techniques. So equilibrium is reached at an unsophisticated level based on the techniques these more experienced firms or individuals were originally using and accustomed too. This leads to the following:

> **H3:** Advertising experience will be negatively related to budgeting sophistication.

Method 1

The first study surveyed marketing managers using a six-page questionnaire. The distribution of the questionnaire was specifically targeted at people directly responsible for advertising decisions. The questionnaire was developed with the aid of five senior marketers in the UK and pilot-tested on a sample of 25 companies before the main mailing. It included items measuring budgeting methods, the direction of budgeting decision-making, attitudinal and behavioural variables and company demographics. The questionnaire sought to develop a picture of the firm's advertising and promotions budgeting sophistication, whether its sales were on target, advertising and promotions budgeting processes, and advertising experience.

Using established practice (see Piercy, 1987(b); West and Hung, 1993; Prendergast, West and Shi, 2006) the overall sophistication of the budgeting method was determined by allocating points according to the category of the budgeting methods applied. Judgmental methods (affordable, arbitrary) were given one point each to reflect the lowest level of sophistication, two points were awarded to the competitive methods (competitive absolute and competitive relative), three points were allocated for sales-based methods (% of anticipated sales and % of last year's sales), four points were given to the measurement methods (incremental, ROI and quantitative), and finally five were awarded to firms using the objective & task method, commonly agreed to be the most sophisticated. Each company was allowed to tick all of the methods that they utilized, so a total sophistication score was calculated by awarding points by category for all of the methods used.

Risk aversion was assessed according to whether or not the firm's sales were reaching target levels. Specifically, three items (alpha = .858) were measured using a 7-point Likert scale (1 = strongly disagree to 7 = strongly agree): "sales have been higher than expected this year"; "sales have been higher than expected last year"; "sales have been higher than expected the year before last."

The advertising budget process was categorised into three types of decision processes (see Belch and Belch, 2007; Miles, White and Munilla, 1997). A system was described as 'Bottom-Up/Top-Down' if spending was decided purely by the Marketing Department or initiated by marketers, modified by the CEO/directors and finally decided by the marketers [dummy coded 1]. 'Top-Down/Bottom-Up' described budgets decided purely by the firm's CEO/directors or initiated by CEO/directors, modified by marketers and finally decided by the CEO/directors [dummy coded 0]. Finally, 'Functional Area Committee' budgeting described systems where spending was decided by a committee or where decision making fell into neither of the other categories [coded as missing].

To obtain a valid measure of experience it was considered important to capture the experience of both the firm and the individuals involved. Advertising experience was measured in terms of agreement with two statements: "I have considerable advertising experience" and "My company has considerable advertising experience." These were measured using the same 7-point Likert scale (alpha 0.70).

The information was gathered using a key respondent technique. The questionnaire was sent to 330 senior marketers (predominantly directors of marketing, brand managers and advertising and/or marketing communications managers) who were members of the Incorporated Society of British Advertisers (ISBA) and who agreed to participate in return for receiving a copy of the results. Anonymity was built into the research design by including a postcard to request copies of the results separately from the questionnaire. The size of each company was measured in terms of self-perceptions of size on a five point scale (1 = extremely small and 5 = extremely large) because of the variation in absolute sizes among the firms involved. The number of employees and gross annual sales were measured directly with open-ended questions.

The ISBA sent out the questionnaires from their London offices with an accompanying letter. Respondents were asked to send their replies to the authors for analysis. From the first mailing, 40 questionnaires were received. A second mailing with a further encouraging letter from the ISBA produced another 37 responses for a total of 77, an effective response rate of 23 percent. Given the up-to-date nature of the database, there were no 'wrong address/return to sender' responses. Non-response bias was addressed using Armstrong and Overton's (1977) tried and trusted method, where the first 25% of the responses are compared to the last 25% of the responses. No significant differences were found.

Findings

The overwhelming majority of respondents were Heads of Marketing (53%), Brand Managers (18%) or Advertising/MARCOMS Managers (18%). The remainder were either Marketing Development or Business Unit Managers. Three respondents declined to provide their job title. Their firms were involved in finance (25%), services (22%), food (18%) and other manufacturing (12%), with the rest involved (in order of importance) in pharmaceuticals, retailing, toiletries, consumer durables and FMCG. The average age of the firms was 62.73 years with a standard deviation of 80.67 and a range of 1 to 375 years.

It can be seen (Table II) that the respondents saw marketers as the primary participants in budgeting, followed by finance, corporate head office and business unit managers, with some participation from sales and advertising/promotions agencies. They perceived very little participation by R&D, operations, retailers, human resources or their distributors. The majority of respondents (64%) described their process as being bottom-up/top-down, with the advertising and promotions budget initiated by the marketing department, modified by the CEO/directors but with the marketers taking the final decision (see Table III). Top-down/bottom-up budgeting was the next most common, with only minority use of functional area committees and other processes that could not be easily classified.

Table II: Participation in Budgetary Decision-making

[N=77]	Mean	SD
Marketing	6.64	0.954
Finance	4.77	2.064
Senior Management/Corporate Head Office	4.57	2.163
Business Unit Management	4.05	2.576
Sales	3.12	2.374
Advertising/Promotions Agencies	2.89	2.097
Research and Development	1.85	2.460
Operations/Production Management	1.59	1.703
Retailers	1.08	1.470
Human Resource Management	1.00	1.188
Distributors	1.00	1.287

Note: low participation (1) to high participation (7).

Table III: The Budgetary Process

[N=76]	%	n
Bottom-Up/Top-Down: initiated by the Marketing Department, modified by the CEO/directors but with the marketers taking the final decision	63.6	49
Top-Down/Bottom-Up: initiated by CEO/directors, modified by the Marketing Department and finally decided by the CEO/directors	29.9	23
Functional Area Committee	2.6	2
Other	2.6	2

Nearly 30 percent of the respondents claimed that their firms used judgmental budgeting methods, followed closely by objective & task processes (see Table IV). Measurement budgeting methods came next with slightly over 20 percent, then sales with 15 percent and competitive with nearly eight. Objective & task was the single most commonly cited method, claimed by around 28 percent of respondents, then the affordable method with slightly over 20 percent followed by ROI budgeting at 16 percent. Each of the remaining methods had less than 10 percent prevalence. The mean number of methods used by each company was 2.01 (standard deviation 1.293) and the mean sophistication score was 5.78 (not shown in the table).

Table IV: Budgetary Categories & Methods

	%	n
Category		**[n=77]**
Judgment - J	28.46	37
Objective & Task	27.69	36
Measurement - M	20.77	27
Sales - S	15.38	20
Competitive - C	7.69	10
Methods		
Objective & Task	23.87	37
Affordable (J)	20.65	32
ROI (M)	16.13	25
% of Anticipated Sales Next Year (S)	9.03	14
Arbitrary (J)	6.45	10
Competitive Relative (C)	6.45	10
Quantitative Models (M)	5.16	8
Incremental Testing (M)	2.58	4
% of Last Year's Sales (S)	2.58	4
Unit Sales (S)	2.58	4
Competitive Absolute (C)	0.65	1
Other	3.87	6

Note: Respondents could select multiple categories and methods.

No significant correlations were found between budgeting sophistication and the main independent variables (Table V). In the hope that controls might tease out some significant results, and to test the hypotheses, the analysis proceeded with hierarchical regressions (Table VI). Model 1 regressed advertising and promotions budgeting sophistication against the controls to form a base-line model against which to examine the independent effects of the three risk-related variables. This model reveals that none of the control variables was significant. Model 2 added the three risk variables of interest: sales in relation to aspirations, the direction of the decision making process, and experience. None of these three variables were significant.

Table V: Descriptives and Correlations

(N=77)	Mean	SD	1	2	3	4	5	6
1. A&P sophistication	5.78	3.75						
2. Aspiration	3.51	1.65	.160					
3. Process	0.68	0.47	.032	-.130				
4. Experience	5.51	1.00	.041	-.032	.126			
5. Size	3.84	1.08	.012	.026	-.180	.198		
6. Employees	13034	34463	.153	-.005	.027	.048	.321(**)	
7. Sales	9.09E+8	202015393	-.175	-.138	.077	-.003	.227	.470(**)

Note: Dummy variable coding for process: 1 = bottom up and 0 = top down; ** Significant at the $p \leq 0.01$ level (2-tailed test).

Table VI: Regression - Sophistication and Controls

	Model 1		Model 2	
	t	beta	*t*	beta
Control variables				
Size	.501	(.089)	.976	(.186)
Employ	.088	(.017)	-.284	(-.058)
Sales	-1.164	(-.211)	-.941	(-.180)
Independent variables				
Aspiration			1.402	(.241)
Process[a]	-	-	.907	(.160)
Experience	-	-	.558	.096
R^2	.043		.116	
Adjusted R^2	-.035		-.040	
F statistic	.550		.742	

[a]Dummy variable coding: process 1 = bottom up.

Discussion

Marketers were, not surprisingly, viewed by respondents as the dominant participants in advertising and promotions budgeting in collaboration with finance and senior corporate and/or local business unit managers. Sales and advertising & promotions agencies play some role as well. In relation to what methods and processes practitioners are using, the evidence shows signs of an overall rise in the adoption of more sophisticated methods. The advertisers surveyed used a variety of methods (two methods on average per company). Judgmental methods (especially the affordable method) and objective & task methods accounted for well over 50 per cent of the methods used (disaggregated). At the same time, measurement methods (in particular

ROI) were solidly represented. To place these observations in context, Table VII summarise the findings on methods used between 1975-1997 based on studies primarily from the UK and the US. It can be seen that UK advertisers in this study claimed to use objective & task methods to a similar extent, are using less judgmental methods and used measurement methods much more widely than the period average. Though it was not directly examined in this study, the growth of measurement methods is most likely linked to an increasing use of CRM databases and direct marketing tools, especially in the retail and financial sectors.

Table VII: Budgeting Categories Used 1975-1997 (%)

	1970s	1980s	1990s
Judgmental	32	25	36
Objective & Task	6	31	29
% of Sales	50	27	22
Measurement	3	7	5
Competitive	1	8	7
Miscellaneous	7	2	0
	100	100	100

+ Note: Categories were dis-aggregated to 100%. Studies from the 70s: San Augustine & Foley (1975), Gilligan (1977), Permut (1977). Studies from the 80s: Patti & Blasko (1981), Lancaster (1983), Blasko & Patti (1984), Hooley & Lynch (1985), Piercy (1987a,b), Lynch & Hooley (1987), Lynch & Hooley (1989), Synodinos, Keown & Jacobs (1989). Studies from the 90s: Lynch & Hooley (1990), Ramaseshan (1990), Parry, Parry & Gable (1991), Hung & West (1991), Miles et al. (1997).

Seeking explanations for these budgetary choices proved less fruitful. The primary area of investigation—the relationship between risk and budgeting—failed to find conclusive evidence. Contrary to the findings of Kissan and Richardson (2002) and of Supanvanij (2005) who used share ownership data, there was no evidence that budgets were being set more crudely by top management than by lower levels of management: H1 was unproven. Perhaps this provides a valuable check on the proposition, which was not validated at the micro-level of this study, which, after all, is where the decisions are made. There was also no evidence that experience or organisational processes had a role to play in sophistication, which was surprising given its support amongst previous researchers (Piercy, 1987a; West and Hung, 1993): H2 was unproven. Equally, with H3, there was no relationship between budgetary sophistication and the perceptions of personal and company experience amongst respondents, nor did scale variables (size, number of employees and sales) make any contribution.

In summary, the underlying propositions relating to risk, process and experience could not be replicated at the individual firm level of this study. Furthermore, there has been no consistency over the years in any of the research on budgeting. Despite the logic of correlating budgeting with descriptors of company size, neither the managerial processes used or behaviours such as prospect or agency theory provide a consistent explanation. It was, therefore, decided to undertake a qualitative study with marketing budgeting stakeholders in order to identify the potentially (1) missing elements and (2) variables 'hidden from view.'

Method 2

To fulfil the goals of the research using a qualitative design (Neuman, 2007) it was important to talk to professionals who proposed and/ratified marketing budgets or who were affected by the process to gain insight into the concepts, dimensions and variations involved. This second study consisted of nine interviews performed by the first author. The sample consisted of three marketing managers at top consumer global advertisers [Global 1, 2 and 3], three at leading business-to-business brands [B2B 1, 2 and 3] and with three people who were involved at various stages of the process—a leading advertising agency executive [Agent], a senior management consultant [Consultant] and a Finance Director at a FTSE top 100 who sanctioned a multi-million pound global marketing and sales budget [FD]. The representativeness of these individuals of the concepts rather than a particular sample was key. In line with ethical codes and in order to encourage candour, anonymity was promised and each interviewer provided with a copy of their transcript and provided with the opportunity to make changes or amendments (none were made)..

Each interview was transcribed and the findings compared and contrasted with other interviews. A sequential framework was employed tracking the data against its relationship to the literature and the findings of the survey to gain a contextualised view. Phenomena were developed from the raw data and given conceptual labels (Corbin and Strauss, 1990) in order to see if the original hypotheses needed revising or held true. Finally, selective coding was employed to see if it was possible to unify all the codes around a 'core.'

Findings 2

The first question asked was: *Do you generally believe that people in marketing are more likely to take risks when they feel they are unlikely to reach their targets (and be below their aspiration levels)?* The three phenomena that emerged related to 'organisational power,' the 'standing of individuals' and 'lack of targets.' There was general agreement that the power of the organisation inevitably leads to a more risk-averse stance and individuals are unable to counter-balance this. Nevertheless, a great deal depends upon the standing of the individual and their relationship with their senior management. Well-respected Marketing Directors would be able to win the case for taking a generally perceived risky direction if their arguments were soundly underpinned. It was also pointed out there it is quite common for there to be no targets to worry about as the advertising and promotions budget spend often had no benchmarks in place. Consider the following:

> "...Sometimes marketers may want to do something risky, but the organisation says we want to press on. Blind faith carries you on." [B2B 1]

> "What are the consequences of making or hitting a target?...If the bonus is 20% plus and we are close to hitting the target we might risk it. However, if the bonus is 50% and you are 50% off you won't make it whatever the risk taken." [Global 2]

The question of shares was then addressed with the following question: *To what extent do you think ownership of shares affects manager' propensity to take risks?* Overwhelmingly the answer was 'no.' Respondents argued that shares are about commitment and the long-term and lots of variables impact upon taking a risk such that share ownership alone does not have a significant impact. Furthermore, if it does have an impact, it is largely in the direction of risk adversity. It was noted that:

> "A shareholder realises a huge amount of things affect the share price…It's not a risk – it just means you are more committed. It won't affect a single action. There are so many other factors affecting the share price such as raw materials, markets, global etc. Whether you have a large or small number of shares it simply makes you more committed. Shares give you a more long-term commitment and reduce the likelihood you will want to get out. If you are a shareholder you are more committed to the brand you work on…" [Global 1]

Turning to the issue of budgetary process the sample was asked: *Might risk vary in bottom-up or top-down management processes?* The two phenomena that clearly emerged were the personalities involved and the culture of the organisation:

> "It depends on the personalities involved…Risks often come from the bottom as that's how you make your mark, but they need a champion…If you are in a culture where it is frowned upon it won't move on as it can only be sanctioned from the top. It has to be measured risk. You have to have a sense of how it will turn out. The people at the top want to see your homework and measures and you have to prove it will have an effect. Measured success will be supported. You need firm evidence." [Global 1]

> "The most important thing is the culture of the company rather than top-down or bottom-up. If the top-down culture is risk-averse the people at the bottom will also be risk-averse. It is highly unlikely that functional managers will have a different view to top management as they won't last." [B2B 3]

The next question asked was: *To what extent are people more likely to take a marketing risk if they have more or less experience of marketing?* The findings were overwhelmingly that it would be less. However, it might be a bigger risk albeit calculated. Junior people take risks essentially out of ignorance.

A couple of illustrative quotes:

> "People I've know who take bold decisions have the bread and butter decisions behind them. They have the confidence to stand up and make a decision. If you haven't done much marketing and want to make a bold decision you won't be listened to…Younger people have ideas, but a champion is needed at the senior level. That's where it comes from." [Global 2]

> "They will take fewer risks, but they might be bigger risks. The chief exec will decide whether to build a new plant and junior people can't decide that. Chief execs won't concern themselves with deciding if a commercial goes out on a Thursday or Friday night..." [Agent]

In relation to involvement in the decision they were then asked: *Who do you consider has most influence on the marketing budgeting decision?* Two phenomena emerged – process and standing. With process the view was that the marketers are proposers and senior management ratifiers. The influence of the marketing department beyond proposer was very much dependent upon the standing of the people concerned:

> "…It's down to marketing people to input what their tasks are but there isn't a bottomless pit. The budget is always ultimately determined by what can be afforded. Within the budget the Marketing Director determines how it will be spent." [Global 3]

> "Ultimately the chief exec...Simple answer is a hierarchy: CEO – FD – Marketing Director. CEOs are often not marketing directors and hardly any FDs are, so if the marketing director is a really good one with a great reputation you might question the budget, but respect their judgment. If they are inexperienced you take charge and question everything. It seriously does depend on the experience and the record of the marketing director." [FD]

In response to the question, *what budgeting methods are you aware of?,* the key phenomena proved to be objective-task, sales objectives, keeping costs down and the 'unknowns':

> "There is no marketing director who survives if the sales director is having a hard time…The challenge is to spend most of it where the customer sees it and not in things like fees." [Global 3]

> "I only ever think of bottom-up – this is the job to do. Let's look at the recommended programme and cost it: mix, audience, channels, methods of delivery (TV/leaflet), view of coverage and frequency. You work it all out and you get a number. That number is met by someone coming top-down who says to you: "you've got 2m quid. Lots of businesses look at incremental, a/s, price, margin, percent to promotions. This is top-down." [B2B 2]

> "After 30 years of working I haven't a clue…Essentially you need to analyse the effect required..." [FD]

The respondents were then asked: *Do you find that the best methods aren't always used? If so, why not?* Several phenomena emerged including power and politics and the lack of confidence in marketing people, the lack of time, the lack of agreed measures and the way that budgets are changed over time. Here are some indicative comments:

> "Each department goes to the Marketing Director and lays out their vision with supporting evidence. Each will argue for a pot of money based on current data and a year before. Eventually it may be out of your hands how it works out. The 'candy or gum portfolio' is taken out of your hands. E.g. the global growth of gum is such that they (senior management) want to see your plans…" [Global 1]

> "We have lots of tools we can use but we need more time. I don't want any more tools. There are diminishing returns in time and effort in doing it." [Global 2]

> "It's mainly the weakness of the marketing department. But I have a healthy respect for the good ones. The problem is most marketing departments are narrowly focused. They have no interest in finance, ops or anything except marketing. They see marketing as the only thing. The potential for error is huge. It's arrogance. I would fall and make love to any marketing director that would see a wider perspective. They present everything as absolutes. Everyone knows that numbers on a page are just numbers." [FD]

The final question asked was, *what conditions or circumstances tend to generate the best methods for setting a budget?* The key phenomena to emerge were time (having enough of it), being based on the right data (in particular competitor intelligence), having the 'right' culture (staff with the 'right' mindset) and having commitment from senior management:

> "...You have to be realist and bear in mind if you add up all the competitors aims they add up to 120 percent of the market overall. Budgets have to be realistic." [Global 3]

> "If best is return on investment a brand may have an autocratic budget-setting process which is annoying, but effective. It saves time so you can focus on the marketing and get on with it..." [B2B 2]

> "The best methods are used by companies that employ the best people. Higher calibre people generally make better decisions. You could argue that companies have a closer relationship between advertising and sales (retail, direct) than brand advertisers (e.g. cars). Either easy or less easy to do it. Defined by the market." [Agent]

> "It's a mind and a mindset…No-one thought O2 would survive, but they had a group of execs who allowed the marketing function to run the business and they created their space in the market. You need to educate people. On-line marketing is easier to measure and so that is where budgets are going." [Consultant]

Discussion 2

Most surprisingly the qualitative interviews suggest that budgeting has little to do with methods. The key concepts that emerged instead were: personalities; organisation; timing; planning; and, the nature of the market and access to data. From a careful analysis of the data it would appear that the core strategy that unifies all the codes is 'culture.' Research indicates that successful risk takers often feel that their past successes are due to their skills rather than good fortune. According to March and Shapira (1987, p.1414) "history not only sorts decision makers into winners and losers but also interprets those differences as reflecting differences in judgment and ability." This tendency to attribute favourable outcomes to enduring features rather than good luck has been observed in organizations (Roll, 1986) and individuals (Gilovich, Vallone and Tversky, 1985). To varying degrees, successful risk-taking individuals are likely to believe that they can beat the odds, that nature is good to them and that they have special abilities.

It has been shown that groups can, and do, influence individuals to take more extreme positions (Stoner, 1968). Studies of organizational cultural risk values (Douglas and Wildavsky, 1982), risk typologies (Deal and Kennedy, 1982) and senior managers risk orientations (MacCrimmon and Wehrung, 1986) suggest that organizations can encourage or discourage individuals to undertake risky behaviour. The typical group member is motivated to exceed or at least equal the average group member on positively valued dimensions such as intelligence and courage (Laughhunn et al, 1980). Different organisations, through their reward systems, can encourage or discourage risk-taking of all kinds, including advertising & promotion budgeting.

Organizational culture is the most important factor of all from the interviews. Not only is it likely to have a direct influence on budgeting, it also serves as the interpretive frame within which other antecedents are evaluated and through which they act and so may transform the behaviour of individuals who propose and ratify budgets. The idea that culture can act as an interpretive frame is not new (e.g. Weick, 1994), as culture can be thought of as the values and norms relative to which phenomena are evaluated by managers. Culture provides the decision-making frame. Culture's relationship with climate (what happens) is essentially generative as culture is about *why* things happen. Thus in terms of the current study, culture may have the effect of providing a meta frame for budgeting, such that virtually all budgeting decisions and processes will be influenced by knowledge of cultural norms and values. Marketers will establish budgets that they know will be acceptable or are likely to achieve maximum resources and senior managers will sanction and ratify budgets according to the accepted organisational norms which they establish and enforce. Personalities operate at the margins and will influence organisational norms. Marketers with proven experience and standing will have a smoother run and be more likely to achieve their hoped-for budgets. Throughout the process better access to data to underpin arguments will enhance marketers' prospects. Most of the other variables appear to be sub-sets of culture. For example, timing is a function of cultural norms. In some organisations budgets have to be set before plans are developed which makes it impossible for marketers ever to establish informed advertising and promotions budgets.

Conclusion

According to the latest figures from the UK's Advertising Association, companies spent around £19,083 million on advertising in 2006 (*Advertising Statistics Yearbook 2007*, Tables 2.1, 3.1.1 and 3.1.2). This represents 2.4 percent of household expenditure and 1.5 percent of the gross domestic product. This study has thrown light on the methods and processes used when UK advertisers set their budgets. It has suggested that UK advertisers use a variety of methods (two methods on average per company). Judgmental methods and the objective & task approaches dominate. The survey found that the explanation for varied advertising and promotions budgetary methods and practices remains unclear. There was no support for the premise that risk and budgeting sophistication are inversely related, which suggests that despite recent support, prospect theory and agency theory do not offer broadly-applicable explanations when it comes to explaining how firms set their advertising and promotions budgets.

The qualitative phase of the study suggested a number of reasons why traditional surveys have failed to throw light on budgeting practices. Stakeholders involved with budgeting are far less concerned with specific methods than dealing with cultural norms, personalities, access to supporting data and policies and practices. Prospect theory simply does not apply to budget-setting as organisational culture is often an overriding one of risk adversity. Faced with the likelihood of achieving below the target marketers do not take gambles as the organisation simply will not let them. Instead they carefully review their strategy and if they do take a risk it will be measured and more likely to be undertaken by an experienced marketer and underpinned by sound reasoning. Most organisations will simply ride out the plan and reflect rather than take risks. H1, the hypothesis that advertising budgeting sophistication will be positively related to the achievement of the targeted aspiration levels simply has little meaning in this context.[2] H2 that firms with predominantly top down processes will tend to use less sophisticated advertising and promotions budgeting techniques than firms with bottom up processes proved redundant. Organizational culture means everyone knows what is or is not possible. H3, that advertising experience will be negatively related to budgeting sophistication found some support under the interpretive design. It was suggested that firms and individuals with more advertising experience will use less sophisticated techniques as they will have more confidence in their judgments and their judgments perceived as less risky. The qualitative interviews did indeed confirm that experienced marketers were more likely to have their budgetary decisions endorsed and accepted given their standing. Whether or not these decisions would be highly sophisticated or not would depend upon time and timing and access to data. No matter how eminent an individual, if the cultural norm was to set the budget quickly and/or before the planning cycle, then there was little that could be done and similarly if little market data were available, it would be hard for a marketer to set an advertising and promotion budget with any significant degree of sophistication.

In summary, the qualitative phase of the study suggests that overall budgetary sophistication appears to be driven by organisational culture, personalities, timing and access to data. The overriding focus on choice of methods in budgeting research may need a re-think.

Managerial Recommendations

It seems clear that there is dichotomy at the heart of advertising and promotions budgeting. Expenditures on advertising and promotions are enormous and dwarf all other forms of marketing activity, yet budgeting for them has received relatively little

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[2] Also bear in mind the heterogeneity of advertising. For example retail would be very different from FMCG, direct response different from image, new products different from old etc; and varying objectives such as image change or target market change etc, will also influence the magnitude of the perceived task, and hence an advertisers' attitude towards budgetary risk.

attention, and there is no evidence of widespread sophisticated practice. It is nevertheless useful, from a managerial perspective, to report results where associations or differences are not found to be significant for the meta-analysis literature has pointed to what is known as the 'file drawer' problem. Because journals (understandably) tend to favour studies which find statistically significant results, papers with contrary findings are less likely to be published. So any review of the published literature may present a misleading picture of the status of what research has found because important studies remain in 'file drawers.' With this study, whatever the cause, there can be little doubt that in most advertising and promotions budgeting cases either too much is being spent and resources are being wasted or too little is being spent with opportunities lost owing to factors involving culture, personalities, timing and access to data. As such there is nothing surprising in seeing such widespread use of judgmental and sales methods amongst leading UK advertisers. The key recommendation arising from this research is that in order to make greater use of more sophisticated methods, primarily objective & task or measurement techniques, calls for better practice are well meant, but probably misguided. The budgeting terrain is a hostile one involving predominantly risk-averse organisational cultures with intense time pressures and poor or total lack of market data which make informed decisions extremely difficult. At best junior marketers need to ally themselves with more experienced champions to have any hope of having risky budgets based upon objectives approved as with many marketing decisions, senior and experienced marketers will be better placed to succeed.

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