

Case Study: Rethinking the Budgeting Process at CarePlus Services

Company background

CarePlus Services Ltd. is a medium-sized service company that provides home assistance services to elderly people and people with limited autonomy. Its clients include private families, local municipalities, nursing homes, and healthcare foundations. The company employs around 220 people, including care workers, nurses, coordinators, administrative staff, and customer service employees. Its reputation is based on three elements: reliability, empathy, and flexibility. CarePlus offers several services: daily home assistance, night assistance, post-hospitalization support, physiotherapy at home, assistance packages for municipalities, and emergency replacement services.

In recent years, CarePlus has grown quickly. However, growth has made the organization more difficult to manage. Scheduling is complex, families often request last-minute changes, municipalities ask for lower prices and detailed reporting, and employees complain about unpredictable shifts and work pressure.

The CEO, Emma Ricci, believes that the company needs a more formal budgeting process: *“CarePlus has grown because of commitment and flexibility. But we cannot continue managing everything informally. We need a budget that helps us plan resources, coordinate departments, and understand whether we are financially sustainable.”*

Until now, the budget has been prepared mainly by the finance department, using previous-year costs plus expected changes. Department managers have provided some information, but they have not been deeply involved.

The CFO, Lorenzo Bianchi, wants to introduce a more structured annual budgeting process, including a revenue budget, staffing budget, training budget, travel and coordination cost budget, cash budget, and budgeted income statement.

The budgeting process

In October, CarePlus starts preparing the budget for the following year.

The commercial director, Laura, prepares the revenue forecast. She expects revenues to increase by 20%, based on possible contract expansions with municipalities, growing demand for post-hospitalisation support, and the opportunity to enter a new nearby province. Laura argues: *“The market is growing. If we are too cautious, competitors will take the opportunity. We need challenging targets.”*

The operations manager, Paolo, is more cautious. He manages the coordinators who assign care workers to clients. He says that the company is already struggling to cover all shifts, especially during evenings, weekends, and holiday periods.

“We can sell more hours, but someone has to deliver them. If the budget assumes growth without considering staffing constraints, the problem will fall on operations.”

The HR manager, Sara, agrees. Recruiting qualified care workers is difficult, and turnover has increased. Training new employees takes time, and the company cannot send untrained workers to vulnerable clients.

The CFO listens to these concerns but reminds everyone that the board expects higher profitability: *“The budget cannot simply reflect current limitations. It must push the organization to improve.”*

The first version of the budget is approved with only minor changes. It assumes a 20% increase in service hours but only a 7% increase in care workers. Finance expects the gap to be covered through better scheduling, lower idle time, and more efficient coordination.

Cost reduction and service quality

To improve profitability, the CFO asks each department to reduce discretionary costs by 8%. The customer service department reduces temporary workers during peak hours. As a result, families wait longer on the phone, and complaints increase. The training budget is also reduced. Sara warns that this may create problems because new care workers need proper preparation before visiting clients alone. The operations department is asked to reduce travel costs. Coordinators begin assigning care workers mainly on the basis of geographical proximity. This reduces travel time, but some families are unhappy because they lose continuity with the care worker they trusted.

The quality manager, Giulia, becomes concerned: *“We are reducing costs, but some of these savings may damage service quality. In our business, quality depends on people, relationships, and trust.”*

Monthly budget reports

At the end of each month, finance prepares a budget performance report comparing actual results with budgeted amounts. Managers must explain variances in a meeting with the CEO and CFO. After a few months, managers begin to change their behaviour.

Customer service managers try to stay within the labor cost budget even when call volumes increase. Operations managers avoid approving overtime unless absolutely necessary. HR delays some training sessions to stay within the monthly budget. Commercial managers push to sign new contracts because they are evaluated on revenue growth, even when operations has not confirmed that enough trained staff are available.

Paolo comments: *“Every department is trying to protect its own budget. But families experience CarePlus as one company.”*

To encourage continuous improvement, the CFO also introduces a rule: if a department stays below budget for two consecutive months, its future budget will be slightly reduced. The rule has unintended effects. Managers become reluctant to show savings. Some postpone expenses to a later month, while others use the remaining budget at the end of the month because they fear that unused resources will be taken away.

Sara observes: *“The system is teaching managers to defend their budget, not to improve the service.”*

The final meeting

At the end of the first quarter, Emma organizes a meeting with the management team. The results are mixed. Revenues have increased, but less than budgeted. Labor costs are higher than expected. Customer complaints have increased. Care worker turnover has not improved. Coordinators report higher stress. Some new contracts are profitable on paper but difficult to manage operationally.

Laura argues: *"If we reduce the targets now, we send the wrong message. Growth requires pressure."*

Paolo disagrees: *"Pressure is not the same as planning. If we promise services that we cannot deliver properly, we damage our reputation."*

Sara adds: *"The budget does not fully reflect the human side of service delivery. People are not just a variable cost. They are the service."*

Giulia concludes: *"We are measuring costs very carefully, but we are not measuring enough what happens to service quality, continuity of care, and customer trust."*

Emma realizes that the budget has improved financial discipline, but it has also created tension, defensive behaviour, and short-term decisions.

She closes the meeting by saying: *"We introduced the budget to help us manage growth. But if the process pushes managers to defend departmental numbers instead of coordinating around the client, we need to rethink the way we budget."*

Discussion questions

1. What is the budget really doing in this company?
2. Where do you see the strongest tensions between growth, cost control, and service quality?
3. Who should be involved in the budgeting process?
4. What behaviours does the budgeting system encourage?
5. What should be considered "controllable" in a service company like CarePlus?
6. How can budgeting affect employee motivation and service culture?

Instructor notes / Possible discussion points
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1. What is the budget really doing in this company?

The budget is intended to support planning and control, but in practice it also becomes a pressure mechanism.

It helps make costs visible and forces managers to think about resource needs. However, it also creates fear of unfavorable variances and encourages managers to defend their departmental budgets.

A good discussion point is that budgets are not neutral technical tools. They influence behaviour, communication, priorities, and power relationships.

2. Tensions between growth, cost control, and service quality. Identify the most important trade-offs in the case. How should managers discuss them during the budgeting process?

The main tensions are:

- increasing service hours versus limited staff availability;
- reducing labor costs versus maintaining responsiveness;
- reducing training costs versus protecting service quality;
- reducing travel costs versus preserving continuity with trusted care workers;
- signing new contracts versus ensuring operational feasibility;
- improving profitability versus avoiding employee burnout.

Students should see that budgeting requires explicit discussion of trade-offs, not only numerical target setting.

3. Who should be involved? Brainstorm which departments and roles should participate in preparing the budget. What kind of information can each of them contribute?

The budgeting process should involve:

- commercial/sales, for expected demand and contract opportunities;
- operations, for scheduling and service delivery capacity;
- HR, for recruitment, training, turnover, and employee availability;
- quality, for service standards and client satisfaction;
- customer service, for call volume and complaints;
- finance, for cost structure, cash flow, and profitability;

- top management, for strategic priorities.

This supports a more participative budgeting process, while still allowing top management to set strategic direction.

4. Behaviours encouraged by the system. Discuss both positive and negative behaviours created by monthly budget reports, variance discussions, and the budget-tightening rule.

Positive behaviours:

- greater attention to costs;
- clearer financial targets;
- more discipline in planning;
- more structured performance discussions.

Negative behaviours:

- avoiding overtime even when needed;
- delaying training;
- cutting customer service resources;
- signing contracts without operational confirmation;
- spending unused budget to avoid future cuts;
- creating budgetary slack;
- focusing on monthly variances instead of long-term service quality.

5. Controllability in a service company. Discuss whether managers are being evaluated on factors they can actually influence. What makes controllability difficult in this case?

Controllability is difficult because service delivery is interdependent.

For example:

- operations costs depend on sales promises and client changes;
- HR outcomes affect service capacity;
- customer service workload depends on operational problems;
- quality depends on training, scheduling, and staffing.

Managers should not be evaluated only on outcomes affected by other departments or by external constraints. Reports should distinguish controllable and less controllable factors.

6. Motivation and service culture

Discuss how budget targets, cost reductions, and performance evaluations may influence employees' attitudes, stress, turnover, and quality of service.

The system may motivate managers to control costs, but it may also damage motivation if targets are perceived as unrealistic or unfair.

In service companies, employee motivation is especially important because employees are part of the service experience. Excessive pressure can lead to stress, turnover, lower empathy, and weaker service quality.

A budgeting system focused only on costs may conflict with a culture based on care, trust, and reliability.