

THE INCORPORATION OF ALTERNATIVE BUDGETING METHODS RELATIVE TO THE USE OF THE TRADITIONAL BUDGETING METHOD

by
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ABSTRACT

The purpose of this study is to determine alternative ways of controlling costs that are more reliable, updated and useful than traditional budgeting. To identify the advantages and disadvantages of the budgeting process. To determine whether a South African company combines different planning methods to suit its specific planning needs. To determine how key performance drivers for planning purposes are chosen in the event that the company makes use of key performance drivers. Finally, to determine the relevance of traditional budgeting when combined with alternative planning methods for a South African company.

This study should contribute greatly to how unique the budgeting process has become in the modern economy. Unlike previous studies that only focussed on abandoning budgets completely or on alternative methods, this study will investigate the use of the traditional budget in conjunction with alternative planning and the extent of alternative planning methods being used. As far as it could be determined, this will be the first study of the implementation of alternative budgeting in conjunction with the traditional budget in a South African context. The study will also make a unique contribution by investigating new combinations of planning techniques used by a South African company.

For this mixed-method study, one single case was selected for an in-depth analysis of the budgeting process. Data was collected by means of questionnaires that were given to all participants of the budgeting process and a once off face-to-face in-depth interview with the CFO of the company.

It was concluded that the budgeting process is unique for this South African company. It includes various alternative planning methods used in conjunction with the annual budgeting process. Disadvantages and advantages of the budgeting process were discussed as found from previous research and from the current study. Alternative methods of planning used by the company in conjunction to the traditional budget were identified and discussed. Further research in a South African context would prove very interesting on the unique budgeting processes implemented by South African companies today.

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Imagine a business world where a company's budgeting process is like a unique fingerprint. A unique blend of different planning methods implemented for the specific needs of the company. A world where every company has an original planning recipe. One cup of traditional budgeting framework mixed with a few cups of alternative budgeting and a spoon of strategic planning. Imagination is no longer needed in the multinational and diverse companies of today. Past research has indicated that budgeting is an important management tool for any business (Weber & Stefan, 2005:20). It is explained that budgeting is mostly used to motivate employees, forecast development and coordinating the use of scarce resources. Budgeting is supposed to assist in handling the challenges of the future more efficiently and to assist in decision making. Although there are the above advantages of budgeting, the process has been widely criticised and even abandoned by some companies (Hope & Fraser, 1997:20-24 & Hope & Fraser, 1999:17).

Keogh (2008:36) states that the budgeting process is often confusing and inaccurate for most organisations. Budgeting is a stressful strategic tool that consumes valuable time of management, not only during the budgeting process but also during the rest of the financial year. Management constantly have to explain the budgetary figures because of the variances between budgeted and actual figures (Leitch, 2003:7-8). It is further explained that budgets do not perform as it should because during the year some of the variables and economic indicators change but the budgeted figures remain the same. Alternative methods of budgeting have become more evident and popular. The rolling forecast method is one of the alternative methods used to replace the traditional budgeting process (Paniccia, 2008:25). Rolling forecast is focussed on long and short term planning and is updated monthly or quarterly and then adjusted accordingly. Other alternative methods include zero-based budgeting, growth strategies, activity-based budgeting, drivers based capacity planning, capabilities driven budgeting and strategic planning initiatives. The question remains whether companies have completely abandoned the traditional budget or whether it is still used but in conjunction with alternative methods and

to what extent alternative planning is implemented to ensure that budgeting is more reliable and relevant.

1.2 PROBLEM STATEMENT

Although the following researchers (Keogh, 2008:36; Hope & Fraser, 1997:20-24; Paniccia, 2008:25-29; Babbini, 1999:54; Cokins, 2008:45-49; Libby & Lindsay, 2003:30-33; Libby & Lindsay, 2003a:28-31; Lindsay & Libby, 2007:625; Clarke & West, 2007:38) have studied the disadvantages and problems associated with the budgeting process, the abandonment of the traditional budget and the implementation of alternative methods, little is known about the adaption of alternative methods in a South-African context. Wilhelmi and Kleiner (1995:78) discussed zero-based budgeting and activity-based budgeting as alternative or modern techniques of planning and linked budgeting directly to strategic planning. Rickards (2008:569-592) summarised several studies on current budgeting techniques used in Western and Central Europe. The article investigates the different budgeting concepts, the obstacles and implementation. The same article found that while most managers and companies complain about the budgeting process they are still cautious to let go of it completely. Rickards (2008:569) found that companies unwilling to change or modernise their budgeting techniques are at great risk to underperform in the competitive market. Sivabalan, Booth, Malmi and Brown (2009:850-871) studied the possibility that annual budgets and rolling forecasts are done simultaneously for specific strategic goals and that the rolling forecast method is not a complete substitute for the annual budgeting process. It was found in this study that the rolling forecast method is not a substitute for the annual budgeting process but used in conjunction with the annual budget. This indicated that research should be done on the implementation of alternative budgeting methods in conjunction with the traditional budgeting process. Extensive research indicated that no studies on the implementation of alternative budgeting methods in conjunction to the traditional budget have been conducted in South Africa to date.

1.3 PURPOSE STATEMENT

The purpose of the current study is to determine the effectiveness of the traditional budgeting process in the modern organisation and the use of alternative budgeting

methods in conjunction with the traditional budget. The study must render supportive evidence on the usefulness of traditional budgeting for a South African company today. The study must render evidence that alternative budgeting techniques are used to improve the budgeting process. The alternative planning methods that companies incorporate to make budgeting more reliable, efficient and accurate must be determined. The last purpose of this study is to determine whether budgeting can be more effective when linked to strategic planning.

1.4 RESEARCH OBJECTIVES

The study will aim to achieve the following research objectives:

- To determine alternative ways of controlling costs that is more reliable, updated and useful than traditional budgeting.
- To identify the advantages and disadvantages of the budgeting process and to determine the importance it has on an organisation's bottom line.
- To determine whether the traditional budget is still being used and the explanation of its existence in the event that it is still being implemented in a South African context.
- To determine whether a South African company combines different planning methods to its specific planning needs.
- To determine how key performance drivers for planning purposes are chosen.
- To determine the relevance of traditional budgeting when combined with alternative planning methods for a South African company.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

This study should contribute greatly to how unique the budgeting process has become in the modern economy. From a theoretical perspective, the proposed study will make the following contributions to the knowledge on the relevance of budgeting and the implementation of alternative methods. First, unlike previous studies that only focussed on abandoning budgets completely or on alternative methods this study will investigate the use of the traditional budget in conjunction with alternative planning and the extent of

alternative planning methods being used. Second, as far as could be determined, this will be the first study of the implementation of alternative budgeting in conjunction with the traditional budget in a South African context. Third, the study will also make a unique contribution by investigating new combinations of planning techniques used by a South African company. From a practical perspective, the findings should assist managers to identify the budgeting areas that still could be improved and managed better. This could lead other companies to understand that the budgeting process can be more flexible and unique to their company.

1.6 DEFINITION OF KEY TERMS

Table 1: Definition of key terms

List	Key terms	Definition of key terms
A	Traditional Budgeting	Annual plan to allocate scarce resources to selected activities.
B	Balanced Scorecard	Strategic tool that measures performance.
C	Rolling Forecast	Regular forecasts with the same interval for example quarterly or half yearly.

Source A: Wilhelmi & Kleiner (1995:78)

Source B: Bible, Kerr and Zanini (2006:18)

Source C: Joachim (2007:68)

Table 2: Abbreviations used in this document

Abbreviation	Meaning
ABB	Activity-based Budgeting
BBRT	Beyond budgeting roundtable
ABM	Activity-based Management
CFO	Chief Financial Officer
ROE	Return on Equity
KPI	Key performance indicators

1.7 DELIMITATIONS

The proposed study is limited to a South African company that forms part of the Safety and Securities Industry. The study is further limited to the budgeting processes and procedures of the specific case study. No other financial or operational management tools will be investigated; the study is only concerned with the budgeting and financial planning process in the financial management discipline. The study is limited to a single case in case study research. According to Leedy and Ormond (2005:135), case study research is limited and may not be used to generalise the findings with other situations or the population as a whole. The study will focus on participants of the company completing a questionnaire on the budgeting process. A delimitation of using questionnaires is that no questions can be added after the questionnaire has been completed because of anonymity that goes hand in hand with this type of research. The questionnaire response is limited due to the fact that only twelve financial managers and accountants form part of the budgeting process.

1.8 ASSUMPTIONS

The study will be based on the following assumptions:

- That mixed method research as a method of research is the most suitable for this study.
- The chosen case study is assumed to be innovative with accounting and management practices and a leader in the economic environment.
- Participants will not be influenced in answering the survey questions and will be able to give correct and true answers.
- The participants in the study will clearly understand the objective of the proposed study and will be able to answer the questions accordingly.

1.9 CHAPTER OVERVIEWS

This study consists of five chapters as follows:

Chapter 1 introduced the specific research and included a discussion of the background to the study, the problem statement, the importance and benefits of the study, the specific

research questions and objectives of the study and the key terms and abbreviations used in the document. This chapter includes the assumptions and delimitations of the study.

Chapter 2 is a detailed discussion on the traditional budgeting process, the difficulties in the budgeting process, alternative methods for planning, strategic planning, the BBRT and examples of companies that abandoned the traditional budgeting process.

Chapter 3 explains the research design and methods used in the study. This includes the research design, sampling methods, data collection instruments and research ethics.

Chapter 4 includes the research results and analysis obtained from the questionnaires and interview.

Chapter 5 summarizes the study with a conclusion and makes recommendations for implementation and possible further study.

This is followed by the list of references that forms part of the study.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

“Budgets are splendid if their numbers are as flexible as the future, their thinking as profound as their number of pages, the future as predictable as their assumptions, and those approving them as knowledge as those presenting them.” (Marino, 1997:27.)

The definition of budgeting can be summarised as a process of scarce resource allocation to selected programs (Wilhelmi & Kleiner, 1995:78). According to Magee and Adams (2010:9), budgeting influences the bottom line of any firm and it is difficult for firms to present an accurate budget in the current economic environment. Firms are faced with pricing pressures, economic volatility, political uncertainty and fast growing expenses. Hope and Fraser (1997:20) highlight the following disadvantages of traditional budgeting:

- Budgeting does not empower front-line managers to make decisions
- Constrains flexibility
- Causes departmental barriers and even hostility between departments
- Budgeting is bureaucratic
- Budgeting is only internally focussed
- The budget becomes outdated as soon as it completed
- and lastly the budgeting process is time consuming

These are only a few disadvantages of the traditional budgeting method. It is evident that companies and managers are not supportive of this method used in isolation anymore. Marino (1997:27) puts emphasis on the fact that a business should be managed properly and should have a strategic future plan and should not just be based on numbers. He also explains that a budget is a guide and a tool and should never be the most important decision maker of a company. To rely only on budgeting as a strategic tool can be devastating to a business.

2.2 OVERVIEW OF TRADITIONAL BUDGETING

“A well-prepared forecast reflects your views, tempers it with reality, and tells you where you’re going and how to get there.” (Pendock, 2000:44).

The accurate identification of costs due in the future and the optimal allocation of resources are of utmost importance in any business (Joachim, 2007:70). Budgeting is important for companies because it gives direction and limits expenditure. Orlando (2009:48) acknowledges the following benefits of proper budgeting. Budgeting is used as a cash flow management tool, a tool to adjust to market fluctuations, measuring progress and as a reporting tool. Budgeting is also used in determining bonuses for management that adhere to their divisions budgeted goals. Although this is the norm, it could rather be seen as a disadvantage of the budgeting process. Budgeting is used to monitor how well divisions meet their goals and how efficiently resources are used in the firm (Magee & Adams, 2010:09).

2.3 DIFFICULTIES IN THE BUDGETING PROCESS

According to Keogh (2008:36), one of the draw backs of traditional budgeting is the fact that a significant amount of the role players do not understand the reason for the budgeting process. This directly influences the accuracy of the budget as some employees may see it as being a waste of precious time and unimportant or a task that they just want to finish and only think about again next year. Another problem with traditional budgeting is that it does not take the current market conditions, economic or political factors into consideration. Traditional budgeting is only focused on historic figures and trends. Traditional budgeting does not take drivers of performance into account; it cannot anticipate an increase or decrease in performance when a key driver changes for example sales units or head count. Traditional budgeting is only focused on a specific year and does not make provision for long term implications of the decisions made in the current financial year’s budget. The traditional budgeting method is sometimes trapped in the past because users investigate why the budgeting process was not successful. This is time consuming and focuses on the past, not the present or planning for the future. The budget process in most instances is outdated. In the modern society, factors in the economic

environment change quickly and makes a traditional twelve month budget old news and irrelevant (Paniccia, 2008:26).

Paniccia (2008:25) explains that divisions negotiate their annual budgets by setting low targets in order to outperform other divisions and also make demands for higher resource allocation to their division. This causes unnecessary competition between different divisions that is not always to the benefit of the company as a unit. Jensen (2001:96) agrees that budgeting process negotiations cause friction between departments and management. Distortions of reality can cause companies to lose profit and it can even cause huge losses. Distortions of reality are created by dishonesty of management during the budgeting process. An example mentioned by Jensen is the understatement of sales by managers in order to easily reach and exceed this budgeted target. This can increase costs dramatically because the purchasing department basis it's purchasing on the understated sales figures. Instead of the purchasing department buying in bulk and negotiating for better prices, they have to buy on smaller scale more frequently. This does not only decrease the chance to negotiate better prices but also increase shipment, delivery and other charges. It further argued that the biggest problem with budgeting is when bonuses are linked with budgeting performance. The traditional budgeting process normally consumes six months of management's valuable time and it is during this time that a company teaches its employees to lie (Jensen, 2003:380).

It is discussed that when managers anticipate that their targets are not going to be met, they will do everything in their power to move other earnings to the next financial month. Then at least they will have a better chance in meeting the following month's targets. On the other hand when managers see that the minimum target is already met, they will move earnings to the next financial period. In doing this the current months earnings is understated which in the end gives a distorted picture of the true financial position. He further warns that the integrity of a whole company can come into question when manipulation of the budget is the norm. Jensen (2001:98) suggests a linear compensation plan for employees. One of the advantages of implementing a linear bonus is that managers can focus on improving performance and profitability because less time is spent on gaming with numbers. A linear bonus will remain the same whether profits reflect in the current period or the next. The emphasis of linear compensation plans is that the actual

performance must be rewarded. The problems associated with a performance contract linked to budget performance can be contributed to the fact that traditional budgeting follows a top down approach where employees have to meet targets to receive recognition by management (Libby & Lindsay, 2003:31).

It is noted that when bonuses are linked to budget performance management will enter the gaming game and negotiate for resources for their specific department. Management eventually compile the budget knowing that it is going to be turned down after many negotiations with top management. This game of negotiations and dishonesty in the budget process can lead to the downfall of the company's integrity as a whole (Jensen, 2003:405). An example of this linear bonus would be to pay a percentage sales commission instead of paying a bonus if a division is between 80% and 120% of its budget target. Another way of implementing performance bonuses is to link performance to the balanced scorecard. The balanced scorecard cannot easily be manipulated by management to help them achieve or exceed targets (Melymuka, 2001:46).

The following is added problems associated with fixed performance targets related to rewards that are listed by Libby and Lindsay (2003:32):

- Underestimating sales or overestimating expenses in order to make targets.
- Spending the budget to the last cent and not rolling anything over to the next period.
- Reduction of advertising costs, investments and quality in order to obtain budget figures.
- Holding back profits when the current budget is already met or exceeded in order to ensure that the following months targets can also be met.

Etherington and Tjosvold (1998:149) explain that conflict in the budget process between different management and divisions will arise. They performed a study at a Canadian electric-utility corporation and it was found that when managers felt that their goals were cooperative and not competitive; these budget conflicts were used to the benefit of the company. The danger is still that the budgeting process may lead to conflict between different departments, managers and top management because of the problem of scarce resource allocation. Evans III, Hannan, Krishnan and Moser (2001:552) suggests that all companies can have a higher rate of honesty in reporting if they are prepared to

compensate employees accordingly. Cost effective human resource policies can improve employee loyalty and honesty.

Babbini (1999:52) explains that traditional budgeting does not take vital factors that are important for shareholder value into consideration. Budgeting does not provide for customer loyalty, the successful development of intellectual properties, the time it takes to meet customer expectations, the development of employees and the quality of products and services rendered. It is further mentioned that the budget is not utilised in the correct way by most companies and this causes further complications.

According to the research Director of the BBRT, Jeremy Hope budgeting includes the following disadvantages and should be abandoned (Parmenter, 2003:41). Firstly budgets are costly and destroy value because the response time is slow. Secondly managers have the urge to only meet the numbers that sometimes encourage unethical behaviour. Lastly management is focussed on numbers and strategic planning is often ignored, which is harmful for the long term profitability of any company. He further suggested that budgets are not relevant or effective in the fast moving economy and management must quit the habit of traditional budgeting.

Cokins (2008:45) argues that the annual budgeting process prevents companies from achieving strategic goals. Another limitation associated with the budgeting process is that some managers add a percentage to the previous year's actual figures. This is not an efficient method of budgeting. He further suggests that companies should rather use demand driven or project driven spending to determine how expenses will escalate.

Orlando (2009:48) identifies three problems in the budgeting process namely; people problems, tool troubles and the process of planning. He further suggests that in order to have a budget that is effective all three of these problems have to be addressed. In a Centage/IOMA survey that was done on the budgeting process it was identified that divisional or department management was the root cause of budgeting pain for financial staff. Some of the problems include managers using unrealistic figures, miss deadlines and simply do not understand what is expected of them. Not all managers understand the importance of the budgeting process or the need to even go through the process. In the

same survey, a CFO noted that it is important for management to understand the drivers that can increase or decrease revenue. In a study conducted by Rankin, Schwartz and Young (2008:1096) it was observed that employees are less willing to put effort into the budgeting process when superiors have the final authority. It is noted that dishonesty is a bigger risk when employees do not have the final decision on the budget, but top management must still approve it. The reason for this is that divisions fear that their budget will be rejected and that they have to start the whole process all over again.

Orlando (2009:48) explains the technological problems associated with the budgeting process. In the same survey 15% of the participants complained about the budgeting tools used. Four out of five of the respondents was completely negative about using excel spreadsheets as budgeting tool. Spreadsheets are time consuming, cannot provide different solutions timely, are often full of errors that users of the budget are not even aware of and it is almost impossible to consolidate it. Traditional budgeting is widely criticised and it is evident that some argue that there are better alternatives of planning for the future. The next section deals with alternative methods of planning.

2.4 ALTERNATIVE METHODS OF BUDGETING AND PLANNING

Using alternative methods of planning or budgeting requires all the team players to buy into the new method and give their full support on it. The finance team must be educated on how the new method is working and what is expected of them. According to Keogh (2008:36), some companies restrict the amount of lines on the budget to make it more user friendly. By reducing the amount of lines on the actual budget, it reduces time spent by management on the budgeting process and reduces the complications of the consolidation process. Leahy (2006:40) explains that if a company wants to improve the budgeting process, it has to set its strategies before starting with the process. It is also explained that companies that are used to the traditional budgeting process that is focussed on historical data will struggle and find it difficult to change their current system to a better alternative. Most employees are reluctant to change the current budgeting system because it may lead to criticism and no reward (Anon., 2008:63). This can be overcome by implementing a new method in conjunction with the existing method and then

streamline the new process. The following are detailed discussions of the different budgeting methods used by companies today.

2.4.1 The N-form model

Hope and Fraser (1997:20) explain that companies cannot simply adopt a new budgeting technique without choosing a management structure and style that suits the new planning method. Competitive constraints in the modern society include intellectual capital, loyal customers, strong brands and not necessarily land, labour or capital as in the past. Hope and Fraser introduced the N-form model, a replacement to the M-form model as a management structure in the new information age. The model focuses on companies with divisions as different profit centres. The N-form model encourages companies to manage their divisions as separate, independent entities. This management philosophy focuses on value maximization instead of minimising costs or expenses.

Table 3: N-form model- levels of management

Type of Management	Management Role	See budgeting as:
Front line Managers	Entrepreneurs & Strategists	Commitment = constraint This level of management needs freedom to operate
Middle Managers	Horizontal integrators	Negative=destroys their effort to build competence in the company
Top Managers	Creators & Leaders of renewal & Improvement	Inhibitor of continuous improvement

Adapted from: Hope & Fraser (1997:20)

2.4.2 Alternatives to using Excel spreadsheets in the budgeting process

One of the biggest concerns of traditional budgeting is the use of multiple excel spreadsheets that can easily be manipulated and is often outdated and inaccurate.

Bartholomew (1998:16) mentions that there is various software programmes that can reduce the time spent on the annual budgeting process. The first is a budget module that was created by InAlysys Inc; this software gathers information from the general ledger accounts from SAP and other accounting programmes. Another programme developed specifically for the budgeting process is called Business Maestro; this program eliminates the extensive use of Excel spreadsheets, is more user friendly and does not give room for spreadsheet errors.

Sones (1999:49) explains that the Department of Navy was looking for a more efficient way to collect budgeting information. They had a problem with viewing the budgeting figures timely and accurately but with the assistance of a team they created a Web-based system in January 2008 called the Justification Management System. The Justification Management enabled all users to view the budgets at any time and management could determine which departments did not submit their budgets yet. The advantages of using a web-based system includes less paperwork, the elimination of inaccurate excel spreadsheets and all users can at any time view the current budget version.

The use of spreadsheets in the budgeting process was efficient twenty years ago but is no longer sufficient for multinational, multidivisional or companywide budgeting, this was found by the Ventana research on how companies can improve their budgeting and planning process (Anon., 2004:10-11). It was further noted that companies that could plan better and adjust the budget more regularly in difficult economic times were better equipped to keep expenses reasonable. It is further made clear that the use of spreadsheets in budgeting is on the decline. Colman (2006:16) explains that in the ALG Software budget forecasting survey conducted in 2003, seventy three percent of the respondents were still reliant on spreadsheets but the figure declined to sixty nine percent in 2005. Spreadsheets are complicated and it takes larger companies a significant amount of time to consolidate the budget and still maintain a high level of accuracy.

According to Perry (2007:24), there are numerous reasons why companies should move away from relying on spreadsheets for budgeting purposes. Budgets are normally complicated and become too big for Excel to handle, it has multiple viewers from different departments which could hold a security risk and it is impossible for multiple users to work

on the same document simultaneously. It is thus good to move away from spreadsheets to computerised systems that can handle enormous amounts of data and allows for multiple users to work at the same time.

2.4.3 Rolling forecast as an alternative budgeting method

The term rolling forecast can be defined as a process that consists of regular forecasts that are done within the same intervals for example; quarterly, half yearly or even monthly. This process further entails that companies must use fewer cost centres or general ledger lines when compiling the budget figures. It is made clear by Hackett group that more efficient companies make use of fewer general ledger lines during the planning process (Joachim, 2007:68). Continuous planning and adjusting figures accordingly is better for corporate growth than the traditional annual budget (Anon., 2005:1). It is further explained that the biggest difference between traditional budgeting and the rolling forecast is the fact that there is not a specific fixed timeline for example, a calendar year or financial year. The second difference between traditional budgeting and rolling forecast is the amount of line items that management have to budget for. An advantage of using the rolling forecast method is that the demand for products and economic trends are more reliable and are updated timely to ensure better accuracy than the traditional budget. The rolling forecast also ensures that the budget cannot be manipulated by management in order to reach performance targets easily.

Paniccia (2008:26) explains the advantages of using the rolling forecast method instead of traditional budgeting. Divisions are not negotiating for lower targets because corporate targets are separated from profit and loss planning. Without the long negotiations, individuals will save a tremendous amount of time while busy with the budgeting process. This saved time can now rather be focussed on the important projects and plans of the company. The rolling forecast method is continuously planning ahead, this indicates that this method is focussed on long term planning as well as short term planning; it is not focussed on the twelve month financial period and is updated every month. The latest market information and trends form part of the rolling forecast budget, this makes it more reliable and accurate.

Table 4: Advantages of the Rolling forecast method

Advantages of using the Rolling Forecast planning method
Process independent of corporate targets
Based on key business drivers
Longer term outlook
Focused on future predictions
Incorporates current business knowledge
Focussed on big picture financials
Promotes expense and cost rationalization
Influences capital/investment allocation

Adapted from: Paniccia (2008:25)

It is important to understand that the rolling forecast is not the perfect alternative for budgeting but must be supported by other planning methods to make it a perfect solution (Keogh, 2008:37).

After adopting the rolling forecast method in 2003 Avon listed the following five implementation rules. Firstly, no performance bonuses or incentives must be linked to the forecasting process. Secondly, the rolling forecast method must inspire management to make changes and make better decisions. The users of the forecast must be the same employees who created the forecast. Management must feel a sense of ownership for this planning method and lastly external information must be viewed as extremely important. According to Hicks (2008:15), one of the benefits of using rolling forecast is that scarce resources can be redirected quickly and used more efficiently. Management is more proactive in anticipating any changes that could have an effect on the business whether positive or negative. Rolling forecast is an ongoing process and increases awareness for all employees about the state and progress of the company.

2.4.4 Zero-based budgeting

Zero-based budgeting can be defined as a budget technique that does not take prior levels of expenditure into account (Smith, 2010:89). It can also be defined as results that are

used to allocate resources (Wilhelmi & Kleinier, 1995:78). What this indicates is that, the company first formulates the goals or strategic plan and then specifically allocate the resources to meet the required results. This budgeting technique first gained attention in 1977 when President Carter implemented it during the federal budgeting process. This budgeting method forces management to justify every item on the budget. Management has to explain how spending money will benefit the company to reach its goals. It is mentioned that zero-based budgeting can be time consuming and expensive for a company to present every year (Smith, 2010:89).

Hughes (2010:53) reports the benefits of the implementation of the zero-based budgeting process as discussed with the CFO of Business Development at Maple Leaf Sports and Entertainment Ltd. The reason for implementing zero-based budgeting was to start every budget or financial period with a new plan and not carry amounts over from the previous year. In doing this, the company operated more efficiently and unnecessary costs and expenses were avoided. This educated management in understanding their financials better and use this understanding to make better financial decisions. They understood what could influence the bottom line of the division, how to reach targets and exceed it and to understand cash flow and the impact of it on the company as a whole.

This budgeting technique consists out of two steps. The first step is to determine all the decision packages and then secondly ranking the packages to determine which goals receive preference. Thus another good name for zero-based budgeting can be resource priority planning (Wilhelmi & Kleinier, 1995:79).

2.4.5 Following a growth strategy

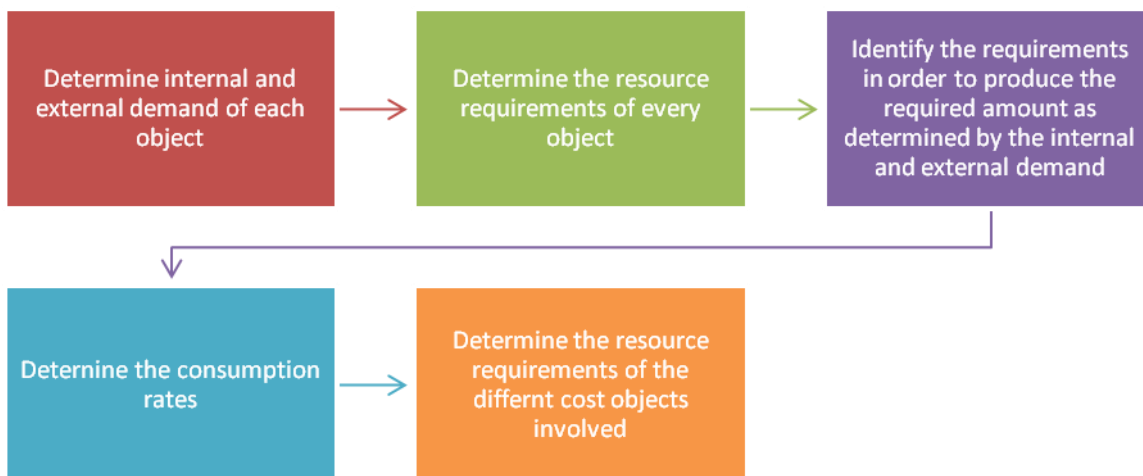
Another alternative to traditional budgeting is to follow a growth strategy (Anon., 2005:1). This planning strategy sets a sales target for every different product and divides it between the biggest clients. This is then monitored on a monthly basis and updated quarterly. One of the important differences is that it compares the sales figures of the previous year to the sales figures of the next year and does not compare it to the budget of the current period. Management can keep a close eye on how well monthly targets are reached and will immediately correct a problem or give attention to a product if the required percentage

target was not met. This method is also focused on key performance drivers. Costs are not measured against a fixed traditional budget but rather per unit costs of different quantities produced or sold.

2.4.6 Activity-based Budgeting

ABB consist out of activity-based cost management techniques, priority based budgeting and quality (Wilhelmi & Kleiner, 1995:80). It is mentioned that ABB can be used in all the different industries, sectors and even in the manufacturing industry. Buys and Green (2007:38) explains the advantages of using activity based budgeting instead of the traditional budgeting method. ABB examines the products or services that are going to be produced and then measure the resources that must be allocated to achieve the desirable activity. Traditional budgeting considers different expenses where ABB analyses the cost of producing different objects. Figure 1 below indicates the steps involved in ABB.

Figure 1: The ABB process



Adapted from: Buys & Green (2007:38)

It is further explained that ABB has numerous financial and transformational benefits that management find valuable. The budgeted information is more accurate, projects with low returns are not encouraged and resources are linked to the specific objects or projects chosen. ABB encourages a strong customer focus and organisational integrity because all

commitments to clients and other business partners can be kept. The reason for this is that when a project is chosen, resources are allocated to this specific project (Buys & Green, 2007:38). The advantage of using ABB is the fact resources are allocated more efficiently that in turn reduces costs. Babbini (1999:54) explains that a clear distinction has to be made between fixed and variable costs in order for it to be valuable as a planning alternative. ABB is beneficial because it highlights the actual cost of activities, enhances innovative ideas on how activities can be more effective, measures in conjunction with total quality management programmes, benchmarking costs and can control operations on a daily basis (Wilhelmi & Kleiner, 1995:78).

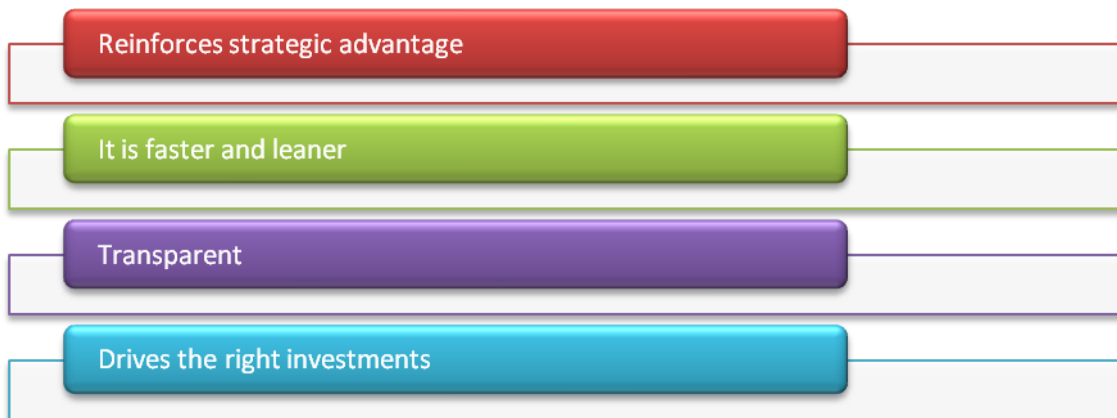
Driver-based capacity planning takes the volumes of products and services into consideration (Cokins, 2008:48). The forecast can thus easily be adjusted because different units can be entered to view different outcomes. This will result in the company having better control over its capacity to supply customers with products and services. Activity based planning focuses on activity drivers, quantities and unit-level consumption rates. He further explains that this is a way of matching supply and demand for products and services. The biggest difference is the fact that ABB does not just add a percentage to the historical figures but rather examines the cost drivers. Cost drivers can easily be adjusted to the changes between supply and demand, making it more relevant in our fast changing economic environment.

2.4.7 Capabilities-driven budgeting

According to Leinwand and Mainardi (2010:12), the budgeting process must be changed to be more effective and should focus on what customers of the company want rather than just improving the old method of budgeting. When customers are satisfied the company holds a great advantage in the market where it operates. This budgeting process consists out of three important parts namely, the way the company chooses to operate in the market, a list of capabilities of the firm that puts them in a league of their own and finally, goods and services that match the capabilities objectives as set in part one and two. The reason for the success of capabilities-driven budgeting is that these companies know what is important for growth and then focus their efforts and resources on this. The bottom line is that companies must decide what their role in the market is; this will have a drastic

impact on their budgeted figures. Companies for example must decide whether they want to be the lowest price competitor in the market or follow other strategies like this and then align the budgeting process to reach this specific goal.

Figure 2: Benefits of implementing Capabilities-driven budgeting



Adapted from: Leinwand & Mainardi (2010:16)

2.5 STRATEGIC PLANNING

“The budget is the gearbox transferring power from the engine to the wheels. It determines the allocation of resources and defines how a company is going to outperform its competitors, which is the goal of any strategic plan.” (Keogh, 2008:36.)

Keogh (2008:36) explains that combining strategy with the budgeting process can prove to very successful for corporate performance management. He further explains that the following steps must be implemented to achieve successful budgeting linked with strategy:

- Long term objectives must be set, monitored and measured by senior management
- Each objective must be measured according to its importance to achieve growth and better performance
- Tactics must be set in place after examining the external and internal business environment
- A comparison of the different tactics and budget must be done. The risks can be identified and strategies can be set for appropriate actions to make the planning as a whole, more efficient

- The final stage is to allocate resources according to the budgeted figures which is aligned with long term strategic planning

It is explained by Pendock (2000:44) that the immediate advantages of strategic planning include a higher level of entrepreneurship, innovation and teamwork. The reason for this is that employees feel encouraged and important when their views and opinions form part of the strategy that the company wants to follow. One example of utilising strategic planning is to investigate the strengths and weaknesses of the company. This is done by asking questions about the profitability, the market, the employees of the company, the finances and finance policies and lastly the level of competitive advantage in the market (Pendock, 2001:44).

Cokins (2008:48) explains that most companies do not put enough emphasis on the strategic budget. Strategic budgeting is important in determining the best products, services and most suitable customers for added value in the business. Senior management can set objectives as part of the strategic budget and with the Driver-based budget and rolling forecast combined can increase profitability or at least the success of the budgeting process.

Benchmark budgeting is an interesting aspect and is explained by Magee and Adams (2010:11) as an important tool to compare the firms budget with its competitors in the market. This will indicate whether the budget is in line with the trend in the competitive environment.

2.5.1 The balanced scorecard as a planning tool

According to Babbini (1999:53), the balanced scorecard can be used as an alternative tool for budgeting. The balanced scorecard combines financial and non-financial targets. Bible *et al.* (2006:18) explain that the balanced scorecard is a tool that measures performance. This strategic tool was developed by Kaplan and Norton more than twelve years ago. The lack of normal financial indicators was the main cause for the development of the balanced scorecard. In the beginning stages of the development of the balanced scorecard it was noted that traditional financial planning measures sometimes failed to incorporate

intangible assets. Innovative product development, supplier and customer relationships and intellectual capital were among the assets that were overlooked as real drivers that actually adds value to a firm. The traditional budgeting process often lacks in enhancing these intangible assets because of cost reduction at all cost. Neglecting the growth and improvement of these intangible assets due to cost reductions can have a negative impact on the firm. This is where the balanced scorecard was born and developed. The balanced scorecard focuses on four parts: innovation and learning, financial, customer and internal perspectives. Each of these drivers has to be improved and must create value to all stakeholders. The balanced scorecard can identify the key drivers of performance of the company and when these are enhanced, it can lead to overall improvement. Traditional financial measures are incorporated into the balanced scorecard. Net income, cash flow and return on equity are some of the measures included in the balanced scorecard as some form of past performance is still needed for successful future planning.

The balanced scorecard can be seen as a tool that incorporates strategic planning in the budgeting process. It is advised that companies make use of an operational budget and a strategic budget as a combined planning method. The operational budget includes the expected revenue and expenses and makes room for external changes. The strategic budget is focussed on growth, new initiatives and the spending on these initiatives. The most important reason for implementing the balanced scorecard as part of the budgeting process is the fact that strategy forms part of the planning process and thus enhances growth for the company (Bible *et al.*, 2006:19-22).

2.6 THE BEYOND BUDGETING ROUNDTABLE

The BBRT is an international company focussed on changing the budgeting process to make it more effective. It consists out of member companies sharing information and seeking new innovative methods of management in business today (BBRT, 2011). The main purpose of the BBRT is to assist companies in reshaping their budgeting process to make it more reliable, accurate and less time consuming (Bruno-Britz, 2005:21). The BBRT was founded in 1998 and continuously researches the problems associated with traditional budgeting and alternatives to traditional budgeting. Openness, transparency and current reviews are at the heart of alternative budgeting (Pilkington & Crowther, 2007:30).

Beyond budgeting identified the following problems with traditional budgeting. The budgeting process is mostly risk averse, management avoid taking risks that could negatively impact the budget but could have a high return for the company. Other problems include divisions competing against each other for resources. Beyond budgeting suggests the use of key performance indicators, balanced scorecard, rolling forecasts and decentralisation. In the modern business world competition is on a global basis and companies must do their best to stay in business.

The BBRT suggests that the budget process or the budget must be more flexible to incorporate higher levels of competition, difficult clients and the unpredictable economic environment (Libby & Lindsay, 2003:30). The vision of the BBRT consists out of two points namely strategic management and the empowerment of employees.

Figure 3: Principles of BBRT



Adapted from: Libby & Lindsay (2003a:29-30)

Libby and Lindsay (2003a:29) explains that relative performance targets includes the following: An increase in customer value and a benchmark set according to previous period results, other principals include continuous planning and rolling forecasts that are not used for performance measures. Leading and lagging key performance indicators are other principals of the BBRT. One of the basic principals is to empower managers to make

their own decisions and take responsibility for these actions. It is explained that companies must still set boundaries for employees in order to avoid bad surprises but there must be enough freedom for management to make their own decisions.

Table 5: Organisations part of the BBRT creating a better model

Organisation	Industry	Country
American Express	Financial Services	USA
Google	Internet search	USA
Handelsbanken	Universal Bank	Sweden
Hilti	Building products	Liechtenstein
John Lewis Partnership	Retail	UK
Southwest Airlines	Airline	USA
Sydney Water	Water Utility	Australia
Telenor	Telecommunications	Norway
Toyota	Car Manufacture	Japan

Adapted from: BBRT – Beyond Budgeting Roundtable 2011

2.7 ABANDONING THE TRADITIONAL BUDGET IN PRACTICE: EXAMPLES

In 1871 the Svenska Handelsbanken was established in Stockholm (Lindsay & Libby, 2007:626). After the appointment of Dr. Jan Wallander as CEO in 1970, the bank abandoned budgets. Instead of the traditional budgeting process, the bank focussed on strategic planning and the use of rolling cash forecasts. In 2006 their target of a higher level of profitability in comparison with competitors was met for the 35th time. The Handelsbanken used the ROE ratio to measure profitability and to determine whether their goals were met. The Svenska Handelsbanken replaced budgeting with the following principals and actions. Firstly, the branch was liable for the operating decisions and

financial results. The branch managers had to take full responsibility for the growth and profitability of their branch.

Management of the company further argued that the assumptions underlying the budgeting process were inefficient and that accurate prediction is beyond human capability. The following planning methods were implemented in the place of the traditional annual budget. Operational planning consisted of meetings between the staff of the branch and the branch manager deciding on the best actions. They held regular meetings regarding the strategic and operational issues. Because each branch was seen as a company on its own, the branch managers were always concerned with the future results. The two ratios used to determine performance of the branch included the ROE, cost-to-income ratio, profit per employee and total profitability. In addition, customer profitability for medium and large customers was reported at branch level. To further enhance the performance at each branch a trophy was given to the best performing branch. This type of management not only boosted profits but also a lower staff turnover rate and a higher rate of internal promotions for hard working employees (Lindsay & Libby, 2007:625-640).

Volvo, incorporates the following rolling forecast methods in their planning process (Anon., 2005:10). A flash forecast that plans for the next three months. The flash forecast is done on a monthly basis to ensure accuracy. The second forecast is done every quarter that evaluates the economic trends and consumer demand for a twelve month period. In addition to this a ten year forecast and a four year forecast is done every year to determine growth and capital outlay and introducing new products to the market.

Another company called Rhodia specializing worldwide in chemicals also changed their time consuming traditional budget with two performance processes. The first cycle is to review a two and five year plan annually. The second process is to plan for five to eight quarters every quarter of the year. High-level key performance indicators are used widely and ensure that management can respond to opportunities and threats in the market more effectively (Anon., 2005:10). Another firm Avon Rubber changed their budgeting methods in 2002 (Clarke & West, 2007:38). Terry Stead, the group Financial Director was concerned about the level of accuracy of the annual budget and the lost opportunities resulting from the budget. In a survey conducted by the Avon employees regarding the

budgeting process, the importance of budgeting in relation to managing risk, controlling costs and the immateriality of long term planning was exposed. The effectiveness of the budgeting process was also voted poor in managing risk, controlling costs and long term planning. One of the divisions volunteered to test the rolling forecast method. The sales team of the automotive division was left in charge of forecasting the sales figures for their division. The rolling forecasts were done without any performance incentives and employees had to spend less time on this forecast than on the traditional budgeting process. Avon then decided to adapt the rolling forecast in 2003 as it proved to be beneficial to the company.

Borealis, a petrochemical organisation that produces polyfins, did not value the annual budgeting process in a market with volatile oil prices and uncertainty. The company replaced the annual budget by implementing rolling financial forecasts, the balanced scorecard, controlling fixed costs and investment management (Libby & Lindsay, 2003a:31). The company was interested in honest reporting and the rolling forecast supported this. The rolling forecast was relevant and fewer employees had to be involved in the process. This process proved to be more successful for Borealis in comparison with the annual traditional budgeting process.

Table 6: Companies abandoning budgets

Company	Industry	Year	Alternative
IKEA	Furniture manufacturer	1992	Costs to be kept in certain revenue ratio boundaries
Borealis	Petrochemicals manufacturer	1995	Scorecards, Rolling forecast, trend reporting and ABM
Svenska Handelsbanken	Bank	Over 20 years ago	Strategic planning and managing divisions as individual companies
Volvo	Car manufacturer	1994	Rolling forecast and KPI

Adapted from: (Hope & Fraser, 1997:22 & Hope & Fraser, 1999a:17)

Companies that have decided to abandon the traditional budget in one way or another include, General Electric, Chrysler, SKF a bearing maker, Schlumberger an oil services

company, Boots a UK retailer, Ericsson, the Swedish post office and Scania a truck manufacturer (Hope & Fraser, 1999a:13).

Hope and Fraser (1999:18) list ten principles for managing without budgets:

- Target setting – this includes setting targets to be more competitive in the market and thus adding value in the long term.
- Strategy – the budgeting process should follow the top-down approach and has to be transparent and ongoing.
- Growth and improvement – the emphasis must be placed on radical thinking.
- Resource management – short term budget allocation must be abandoned to the benefit of value on investments.
- Co-ordination - focus on cause-and-effect relationships between all the different departments.
- Cost management – the focus must not lie in reducing or increasing costs based on past performance but rather on what the company needs to add value during the new financial year.
- Forecasting – Implement rolling forecast.
- Measurement and control – companies must not rely on detailed past performance and budgeting reports.
- Rewards – rewards must not be based on individual performance.
- Delegation – management must not be micro managed and must have the freedom to control the costs in the way that feels best.

It is further noted that companies do not implement all of the above at the same time but rather a combination of the principles that suits the company best. All of the above principles can assist in budgeting for the future taking companies to new strategic heights.

2.8 CONCLUSION

It is noted by Colman (2004:15) that a budget can only be successful or efficient if it is flexible and trustworthy. Budgeting can be more flexible than in the past because information is available faster and can be analysed on a regular basis in order to improve the accuracy of the plan. It is advised that budgeting could be a map but if followed blindly

can result in a detrimental accident. The bottom line is that companies have to think out of the box, rewarding employees in different ways than to rely on budgeting performance and most importantly, have a strong value system that is built on trust. In an interview with Robin Fraser and Jeremy Hope, it is made clear that abandoning the traditional budget does not indicate that planning must come to an end all together. It simply means that a better planning method must evolve for the company and that companies must not just rely on budgeting figures (Oldman & Mills, 1999:26). It is further mentioned in the interview that one of the biggest obstacles in abandoning the old planning techniques is the fact that management is reluctant to change and unsure about the future performance. It is also noted that companies in the service industry will be more pressed for change regarding the budgeting process as these companies are faced with competition, innovative strategies and customer needs.

CHAPTER 3: RESEARCH DESIGN AND METHODS

3.1 INTRODUCTION

The research and design methods will now be discussed. The description of inquiry, sampling, data collection, data analysis and the research ethics forms part of this chapter.

3.2 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN

The following are appropriate descriptions that best describe the broad research design of the proposed study:

- **Empirical research** – Empirical research refers to all research that entails the collection of new data or the re-analysis of existing data (Babbie & Mouton, 2011:75). The proposed study can be classified as an empirical study as the researcher will collect and analyse primary data. New data will be collected in the form of an in-depth interview with the CFO of the case study and questionnaires will be completed by the financial employees that form part of the budgeting process. An extensive analysis will be conducted on the budgeting processes and procedures of the company. Quantitative and qualitative primary data is going to be incorporated into a mixed-method study.
- **Basic Research** – The purpose of basic research is to expand knowledge of processes in business and the findings is normally significant to society in general (Saunders, Lewis & Thornhill, 2007:8). The proposed research study strives to understand the budgeting methods and the implementation of it for academic purposes. The results may not directly influence managerial decision making and cannot be used to make generalisations for the population as a whole.
- **Primary Data** – Primary data is described as data that is specifically collected for the purpose of the proposed study (Saunders *et al.*, 2007:607). In this study, the researcher will collect primary data in the form of questionnaires completed by participants of the case study.
- **Mixed Methods research** – According to Saunders *et al.* (2007:145), this method refers to research that includes quantitative and qualitative data collection.

Saunders *et al.* (2007:608) defines qualitative data as data that is not numerical and quantitative data as numerical data. This study will consist out of an in-depth interview with the CFO that will produce the qualitative data. The study will further consist of questionnaires completed by the financial employees on the view and implementation of the budgeting process. The data obtained from the questionnaires is quantitative of nature and can be analysed statistically by means of averages and graphs.

- **Cross-sectional studies** – Cross-sectional studies explains the study if a particular phenomenon arises at a given point in time (Saunders *et al.*, 2007:148). This study can be described as a cross-sectional study because it will consist out of questionnaires and an in-depth interview at one point in time and will only be conducted once.
- **Exploratory research** – Saunders *et al.* (2007:598) defines exploratory research as research that aims to find new understanding into areas where little is known about the subject or field. Exploratory research is usually the first step of a larger scale study and assists in the formulation of research questions for future studies. This study can be classified as exploratory because it involves a small scale case study collecting data by means of an in-depth interview and questionnaires. It will determine whether it is feasible to conduct a larger scale study on the phenomena of alternative budgeting in relation to old traditional methods.

3.3 SAMPLING

The units of analysis are defined by Terre Blanche and Durrheim (2004:37) as the entities of which the conclusions are going to be made of. The case study company will form the unit of analysis and the financial managers and accountants' part of the questionnaire will be the sampling units of the study. Although data will be collected from individual employees, the researcher wishes to draw conclusions about the case study company as a whole.

According to Saunders *et al.* (2007:140), selecting a single case for case study research can be highly beneficial when it allows an in-depth observation and analysis of a subject that has not been researched completely before. This study will focus on a single case and

was selected because it is the employer of the researcher and shows special interest in examining and improving the budgeting process. A single case in this study is appropriate because an in-depth analysis is going to be done on the budgeting process of the company and alternative methods of planning can be investigated. This will open the discussion on the feasibility of further research on a greater scale with regards to the budgeting process and incorporation of alternative methods relative to it for South-African companies. Time and monetary constraints in conjunction with the in-depth analysis is further justification of the single case been used in the research project. It will prove to be more accurate analysing one case with the time and money constraint of the study.

Thomas (2011:3) mentions that sampling is only relevant when choosing the case that is going to be used in the data collection process. He explains that there are different reasons for the specific choice of case for example the fact that there is a special interest in the case or that the researcher is intimately connected to the case. As mentioned before the researcher is an employee of the case and is thus intimately connected to the specific case.

Case study research includes the following advantages (Simmons, 2009:23):

- Case study research is flexible.
- It is not time dependant.
- It is not constrained by method.
- It is useful for exploring and understanding the processes of change.
- It can document multiple perspectives and allows in-depth studying of complex processes.

Case study research includes the following disadvantages (Thomas, 2011:17):

- Cannot generalise findings to the greater population.
- It has boundaries

According to Ryan, Scapens and Theobald (2002:143), case studies can offer the possibility of understanding accounting techniques, procedures and systems in practise. One of the advantages of using case study research is the fact that new procedures and the application thereof can be explored. Thus, the current study can benefit from case

study research as it is a thorough investigation of the application of alternative budgeting methods in practise. This study will focus on illustrative and exploratory case study research. Illustrative case studies attempt to illustrate possible new and innovative practices implemented by innovative companies. These case studies provide examples of what has been achieved in practise and researchers can learn from these innovative companies. Exploratory case studies are used to explore reasons for the use and implementation of specific accounting practices. This is a preliminary study that is used for idea generation and extensive empirical testing for a greater scale study in the future.

3.4 DATA COLLECTION

This study will focus on collection of primary data. Saunders *et al.* (2007:246) defines primary data as new data that is collected specifically for the purpose of the present study. The budgeting and planning process and procedures of the unit of analysis which is the case study company as discussed in the sampling section of this document will be investigated. The following data collection methods are associated with qualitative research namely in-depth interviews and small-scale open-ended questionnaires. These two methods will be discussed.

3.4.1 Data collection instruments and techniques

The study will make use of the following data collection instruments:

- Semi-structured or in-depth interview
- Questionnaires

According to Saunders *et al.* (2007:312), with a semi-structured interview the researcher will have a list of questions and additional questions can be added to explore the topic or as per flow of the conversation. This conversation or non-standardised interview may be audio recorded or the researcher could take notes. This study will have a face-to-face semi-structured interview with the CFO of the company and the researcher will make notes to ensure the correct analysis of data on a later stage. This research method will be used to understand the budgeting process in detail. After this interview has been completed a

final questionnaire will be created and all other participants of the budgeting process will only complete the questionnaire.

The reason for the use of a questionnaire is to ensure anonymity and better time management of the program. Case study research can benefit from the use of questionnaires in the research project. The choice of the questionnaire that will be used in the study will be determined by a number of factors. The number of questions that is part of the questionnaire, the types of questions that is going to be asked to the participants, the size of the sample and the response rate, the importance of answers not being influenced or misinterpreted by participants and the characteristics of the participants involved in the questionnaire. The choice of questionnaire will also be influenced by the time frame, the financial implication and whether there are fieldworkers involved or not. The different examples of questionnaires are internet and internet mediated, postal, delivery and collection, telephonically and a structured interview process.

The questionnaires will be delivered by hand and re-collected at a later stage in the present study. This method is known as delivery and collection questionnaires. The disadvantage of using delivery and collection questionnaires are as follows: the confidence that the relevant person completed the questionnaire is low but it can be checked on collection of the questionnaire but the data may be contaminated because respondents may discuss their answers and opinions with other participants. This method can enhance participation by the respondents and the only financial implication includes travel costs and the cost of photocopies made for the questionnaires (Saunders *et al.*, 2007:354-359). It is further noted that the feasible length of the questionnaire is between six and eight A4 pages. A copy of the questionnaire can be viewed in Annexure 1 of this document. The study will not make use of field or data workers. All data will be collected and analysed by the researcher due to budget limitations of the project. The researcher will allow one week for the respondents to complete the questionnaire. This is a reasonable time frame for the length and complexity of the questionnaire.

3.4.2 Access to data

In the current study, the researcher will act as an internal researcher. An internal researcher can be defined as a part-time student or an employee of the organisation being researched. Problems associated with internal research are cognitive access, suspicions on the reasons for the research and ethical concerns if participants believe that the data being collected can be harmful for them. This study will be discussed with the CFO in broad detail in order to gain approval and access. It will further be explained to the participants of the questionnaire in broad detail in order for them to acknowledge that the reason for collecting data is for pure academic research in order to explore and understand the budgeting process in detail. The following strategies can assist in gaining access. Time management is of utmost importance and thus the research project will rely on questionnaires to the participants of the budgeting process, this will require less time spent than for example in-depth interviews. Only one non-standardised interview will be conducted with the CFO of the case study. It is important that no time is wasted with compiling the data needed for the proposed study.

Using existing contacts for gaining access can prove to be very helpful. The fact that the researcher is in full-time employment at the organisation which forms the basis of this case study, assists greatly with regards to access and cooperation. It is further stated that the combination of easy access and interest in the study topic can lead to a useful research project. This study has easy access of data and participants due to the fact that the researcher is a full time employee of the case study. The researcher is not directly or indirectly part of the budgeting process of the company. The advantage of knowing the CFO and that the topic is of interest to the company simplifies the part of the process of collecting data for research. It is important to overcome any concerns that the company might have regarding the research. Complete honesty about the time and resources that are going to be used as well as confidentiality and anonymity of the company and individual participants of the study must be confirmed and kept at all times. This can lead to an ethical relationship being formed and permission for further studies been approved. The participants of the questionnaire will be well informed on the reason for the data collection and assurances about their confidentiality and anonymity will be given. This explanation process can be done in a group meeting and participants can ask questions if anything is not clear. The cooperation of the participants in an honest, complete way will

be directly influenced by how well they understand the research project (Saunders *et al.*, 2007:166-169).

3.4.3 Questionnaire design

There are three alternatives that can be used to set up questionnaires namely to take questions from previous questionnaires, slightly change the questions that were used previously or just develop new questions. This study mainly focussed on new questions and includes ranking questions from adopted statements by Hope and Fraser (1997:20-24). Two different types of questions can be formulated for questionnaires. The first type is open questions which can be defined as open-ended questions and participants can give answers in a manner that suit them. The second type is closed questions which force the participants to only choose one of the options as presented in the questionnaire. This study will focus on open and closed questions. Open-ended questions are included as it is widely used for exploratory research.

The study will include rating questions to collect the opinion of the participants on the budgeting process. The questionnaire will also make provision for list questions. List questions can be defined as a question with a list of responses that the participants can choose from. The option 'other' can be included for when the participant has a different answer from those options that are given. Provision can be made for the participant to then specify what is meant by the option 'other'. The study does incorporate list questions and makes provision for the option 'other'. The limitation of including this option is that it can result in unforeseen responses, but the main focus remains on the in-depth analysis of the budgeting process and the researcher understands that the option 'other' could be used and will encourage participants to give an explanation when this option is chosen for the accuracy and benefit of the study. The questionnaire will be in English. It is assumed that most of the participants are comfortable with the English language and will thus complete the questionnaire accordingly. Question coding is the process of designing a coding scheme for questions used in the questionnaire. This study will not pre-code the questions and data will only be coded after collection. This is due to the fact that this study only includes a small-scale questionnaire and is not of such a complicated nature that it requires pre-coding (Saunders *et al.*, 2007:368-377). Leedy and Omrod (2005:29) explain

that validity and reliability reflects the degree in which error can exist in measurements. It is important to note that bias factors for example, prejudices and different interpretations of the scales used can influence the measurement of data. It is important to understand that in this study the ranking questions can be influenced by the understanding of the different scales and bias of prejudices to the budgeting process. The questions must be clear and to the point. The better the design the easier it is to understand and the smaller the room for bias or error.

3.4.4 Pilot testing

Pilot testing can be defined as a small-scale study to test questionnaires or interviews used in the data collection process. This can minimize problems that participants may experience in answering the questions and problems regarding the recoding of data. The validity and reliability of the data that is going to be collected can also be tested in advance (Saunders *et al.*, 2007:606).

Pilot testing is necessary to fine tune the questionnaire to ensure that participants find it easy to complete and that the researcher can easily record and use the data. It is further explained that a number of ten candidates is necessary for pilot testing of a student questionnaire. It is important that the face validity of the questionnaire is tested in order to decide whether the questionnaire makes sense to the participant. The pilot test can provide answers to the following, the time necessary to complete the questionnaire, whether the questions are well constructed, any unclear questions and if the layout of the questionnaire is clear and easy to understand. This study will include a pilot test to ensure a high quality and complete questionnaire. The main focus of the pilot test will be to determine whether the questions and instructions are clear and easy to understand. The pilot test will further test the time that it takes a participant to complete it. The pilot questionnaire will be given to five of the researcher's friends and family to complete and comment on the outlay, clarity and time management of the questionnaire (Saunders *et al.*, 2007:386).

3.5 DATA ANALYSIS

Saunders *et al.* (2007:406) explains that raw quantitative data is of little meaning to people and must first be processed and analysed before it is useful. Graphs, charts and different statistical techniques allow the researcher to explore, describe and examine certain trends in the data.

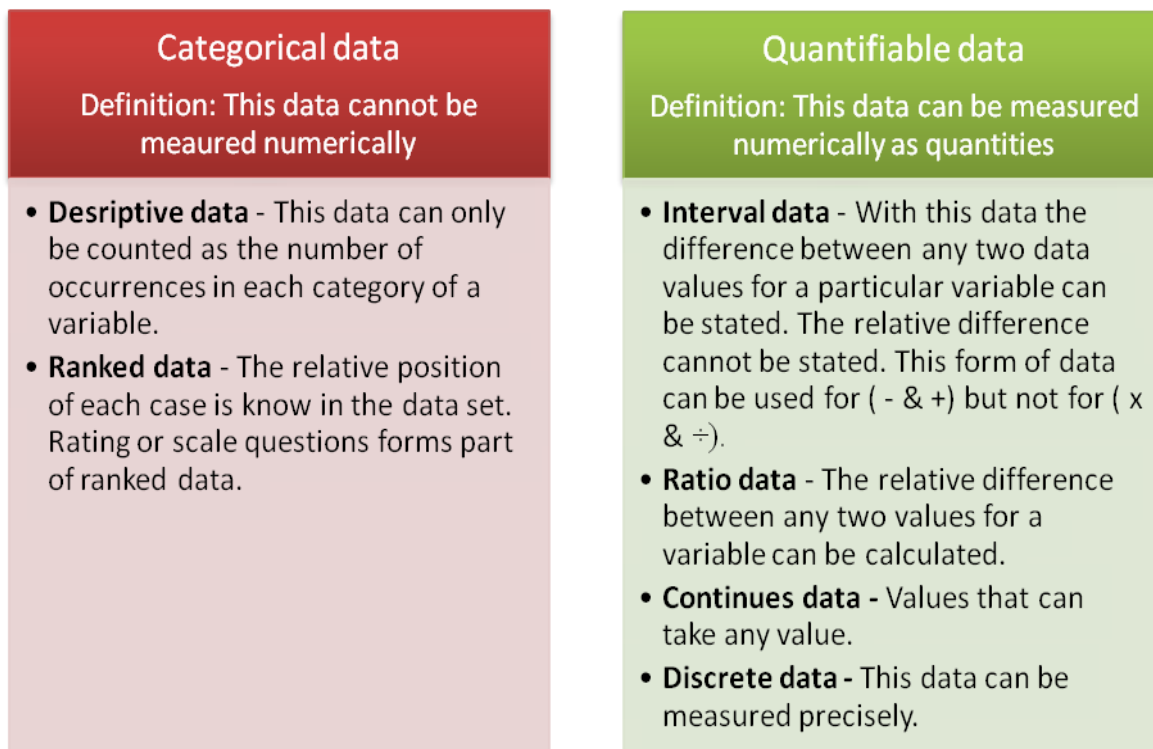
Leedy and Ormond (2005:136) explain the steps involved in data analysis when conducting case study research:

1. The specific facts about the case are arranged in logical order.
2. The data is categorised.
3. Single bits of data are interpreted to examine possible relationships it might have to the case.
4. Patterns in the data are identified.
5. An overall conclusion is generated.

This study awaits further studies before any generalisations can be made, as the study is focussed on a single case. Triangulation of data is of utmost importance, it indicates that different sources of the data or information conclude the same way. The researcher will make notes of the interview with the CFO of the company. The completed questionnaires will be filed and stored after the data has been pounded into Excel for further analysis and interpretation. Copies of the data will be saved on a personal computer and a back-up copy will be made on a CD that will be stored with the notes of the interview and the original completed questionnaires.

The data for this study originated from the questionnaires, interview with the CFO and template of the budgeting process.

Figure 4: Data types in quantitative analysis



Adapted from: Saunders *et al.* (2007: 408-410)

3.6 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

The sources of bias that could influence the research findings, management and accountants can answer the questionnaire as what they perceive the researcher wants the outcome to be instead of the truth. This can negatively influence the research. This can be eliminated by explaining to all participants that these questionnaires are confidential and will be treated in a confidential manner and thus they do not have to be scared to answer truthfully and honestly. The following is described by Saunders *et al.* (2007:318-320) as some of the aspects to take into account when determining the possible bias in the collection of the data. The reliability, preparation, the level of knowledge, the level of information that is supplied to the interviewee, the appropriateness of the location that the questionnaire is completed, the appropriateness of the researchers appearance at the interview and the opening comments that is made before the interview starts.

3.7 RESEARCH ETHICS

Saunders *et al.* (2007:178) defines ethics as the appropriateness of the behaviour of the researcher towards the participants and their rights that become part of the study. Research ethics is thus involved in conducting research in a moral and responsible way. This study will focus on the deontological standpoint that no unethical behaviour will be justified in the research process.

The following is possible ethical issues that can arise from empirical research:

- *Copyright* - It is unethical to copy the works of others and the researchers work must also be kept safe from other people stealing intellectual property.
- *Plagiarism* – It is unethical and illegal to present work that is not the work of the researcher without sourcing the source.
- *Voluntarily participation and the right to stop with the research at any point of time* – The participant has the right to at any time, withdraw from the research and is not obliged to carry on with the research programme.
- *Not to use financial or other incentives* – It is unethical to give financial or non-financial incentives to the participants that take part in the survey.
- *No physical harm to the participants* – The participants must not be harmed in any way
- *Informed consent* – It is important that the participants sign a consent form and that the researcher keeps this form.
- *Privacy* – The completion of the survey process is private and it is important that it is kept this way.
- *Anonymity* – The survey is completely anonymous and this should be preserved by giving participant's numbers and not use their identity.
- *Permission from the CEO to ask questions to employees* – A special consent form has to be obtained from the CEO to get permission that the employees can fill in the questionnaires.
- *The necessary archiving of the documents* – The documents must be archived for at least ten years.

- *The researcher must be honest and objective* – The researcher has to be objective and interpret and analyse the data accordingly.
- *Fabrication of data* – It is both unethical and illegal to make false documentation that forms part of the research study, this is both unethical and illegal.
- *The false reporting of the findings* – The findings of the survey must reflect the truth.

3.8 CONCLUSION

The study was limited to a single case in order to explore and have an in-depth look at one South African company's budgeting process. The reason for this was to understand the budgeting process for this company in detail and then open the path for a larger scale study in a South-African context. Two data collection instruments were used, namely questionnaires and one in-depth, semi-structured interview. Qualitative and quantitative data was collected with an emphasis on the qualitative data.

Chapter 4 outlines the findings obtained from the questionnaires and the interview with the CFO on the budgeting process of the company.

CHAPTER 4: RESEARCH RESULTS

4.1 INTRODUCTION

The previous chapter outlined the research method selected for this study. This chapter contains the results of the empirical study. The findings are split into two categories namely the results obtained from the questionnaires and the results obtained from the interview with the CFO.

4.2 SUMMARIZED FINDINGS OBTAINED FROM THE QUESTIONNAIRES

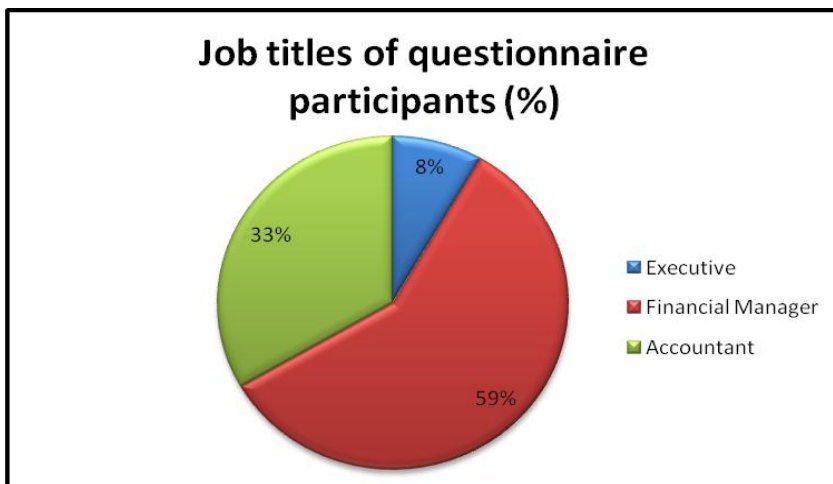
During the interview with the CFO it was discovered that there are twelve participants in the budgeting process at head office. These twelve participants are responsible for their division's budgeting and planning process. Where needed, they collect and compile information from the different branches of the specific division. Twelve questionnaires were delivered by hand and re-collected later the same week. This method resulted in a 100% response rate.

Table 7: Frequency table: Job titles of questionnaire participants

Variable	Frequency	Relative frequency (%)
Executive	1	8
Financial Manager	7	58
Accountant	4	33
Other	0	0
Total	12	100

It is indicated in Table 7 that the questionnaire was completed by seven financial managers, four accountants and one group financial manager. The CFO did not complete a questionnaire because an interview was conducted with him regarding the budgeting process. It is important to relate job title to the questions asked on the relevance of the budgeting process as it was found in the literature review that different levels of employee structure perceive the budgeting process differently.

Figure 5: Job titles of questionnaire participants (%)



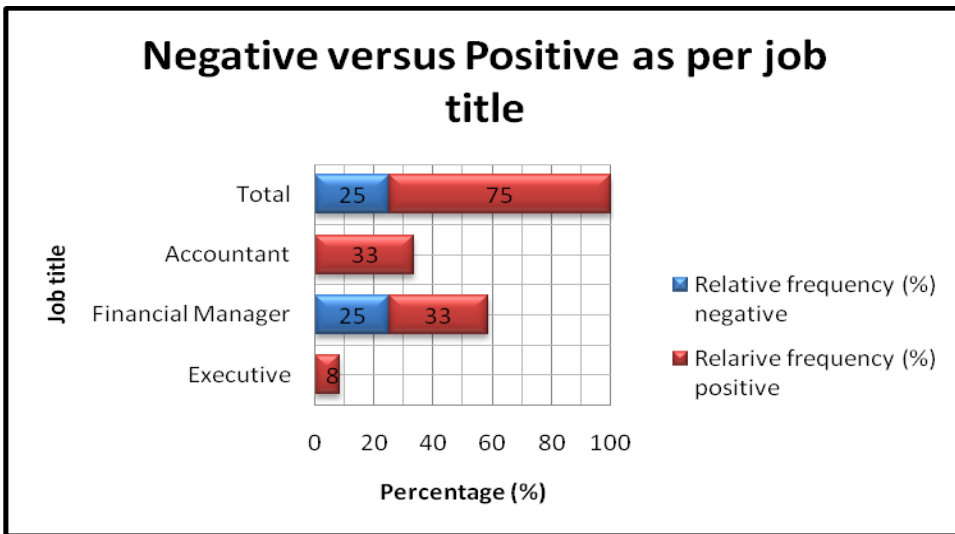
The participants were asked to supply the first word that comes to mind when hearing the word 'budget'. The answers were recorded and split between negative and positive connotations towards the budgeting process.

Table 8: The first thoughts that comes to mind when hearing the word budget

Participants	Feedback	Data Coding
P1	Is a list of planned expenses & revenues	positive
P2	Future	positive
P3	Financial plan	positive
P4	Planning	positive
P5	Value added by budget vs. time spent to prepare budget	positive
P6	a nightmare	negative
P7	Frustration	negative
P8	Planning	positive
P9	Financial plan	positive
P10	Review	positive
P11	Stressful	negative
P12	Forecast	positive

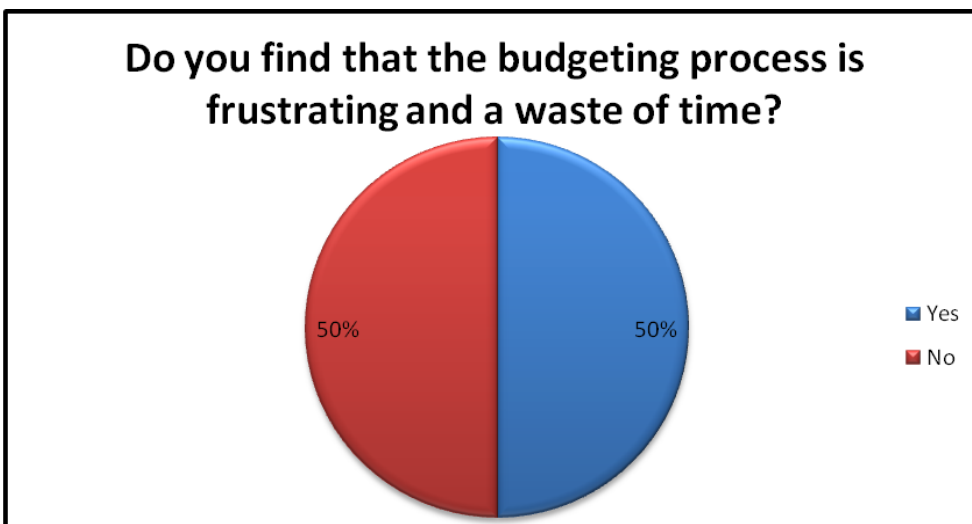
It is clear from figure 6 that 75% of the respondents feel positive or neutral regarding the budgeting process. The budget is perceived as a planning tool or forecast. Of the 12 participants of the questionnaire only 3 of the respondents perceived the budgeting process as negative or stressful. All 3 participants that found the budgeting process negative or stressful are classified as financial managers.

Figure 6: Negative versus positive as per job title (%)



Although the first thoughts regarding the budgeting process were not negative for 75% of the respondents, it is clear that 50% of the participants find the budgeting process frustrating and a waste of time. The question on whether participants find the budgeting process frustrating and a waste of time resulted in a bimodal response. A mode is the single score that occurs most frequently and where two modes exist it is referred to as a bimodal.

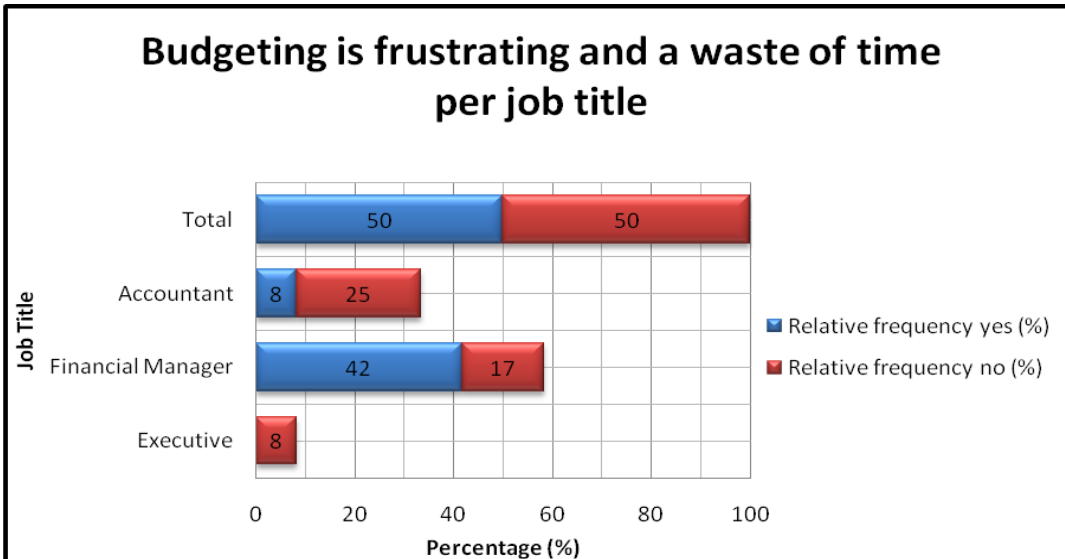
Figure 7: The budgeting process is frustrating and a waste of time (%)



This bimodal was then related to specific job title. 42% of the respondents that felt that the budgeting process is frustrating and a waste of time are financial managers. Only 17% of

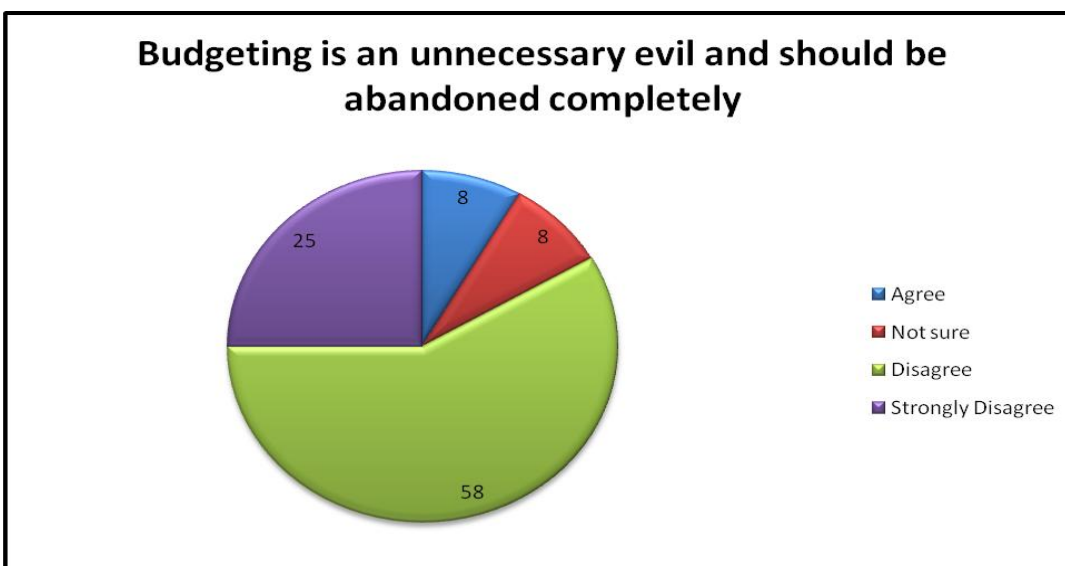
the financial managers do not find the budgeting process frustrating or that it is a waste of time.

Figure 8: Budgeting is frustrating and a waste of time per job title (%)



More than half of the respondents are not willing to abandon the budgeting process completely and 8% of the respondents are not sure whether the budgeting process should be abandoned completely. It is further noted that 25% of the respondents strongly disagree that the budgeting process should be abandoned. Only 8% of the respondents are willing to let go of the budgeting process.

Figure 9: Budgeting is an unnecessary evil and should be abandoned completely (%)



It is noted that 33% of the participants that found that the budgeting process is frustrating and as waste of time are not willing to abandon the process completely. Only 8% of the respondents find the budgeting process frustrating and are willing to abandon it completely.

Figure 10: Participants who find budgeting a waste of time versus abandoning the budgeting process completely

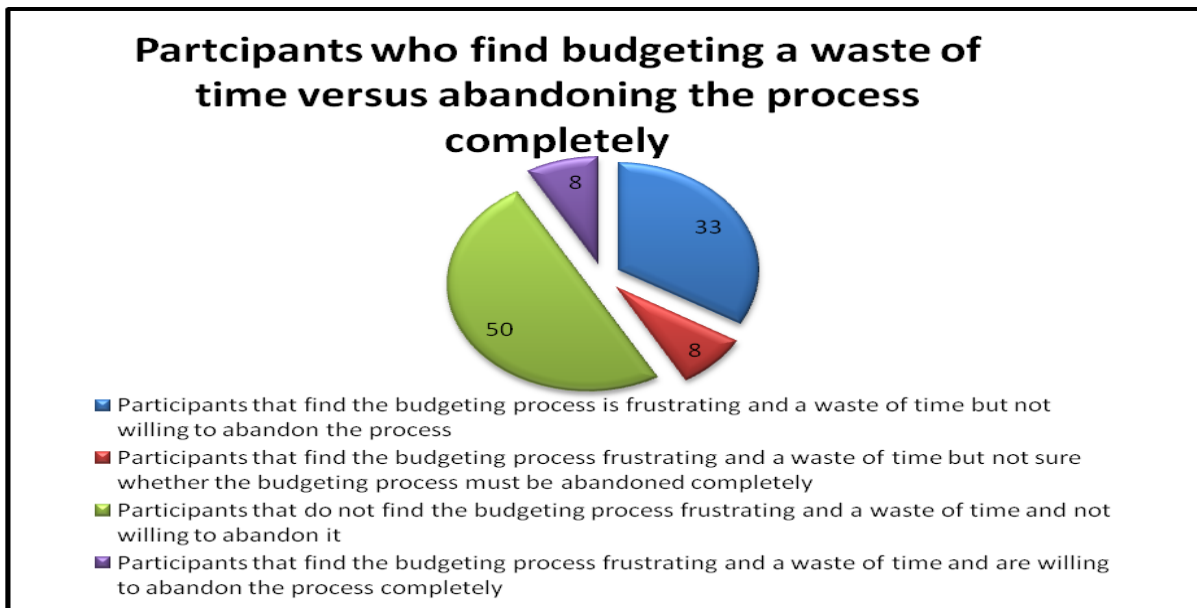
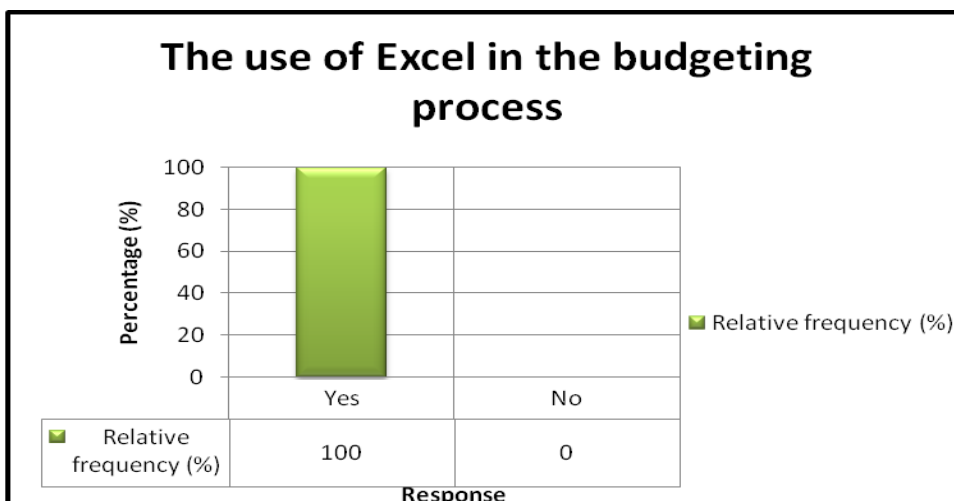
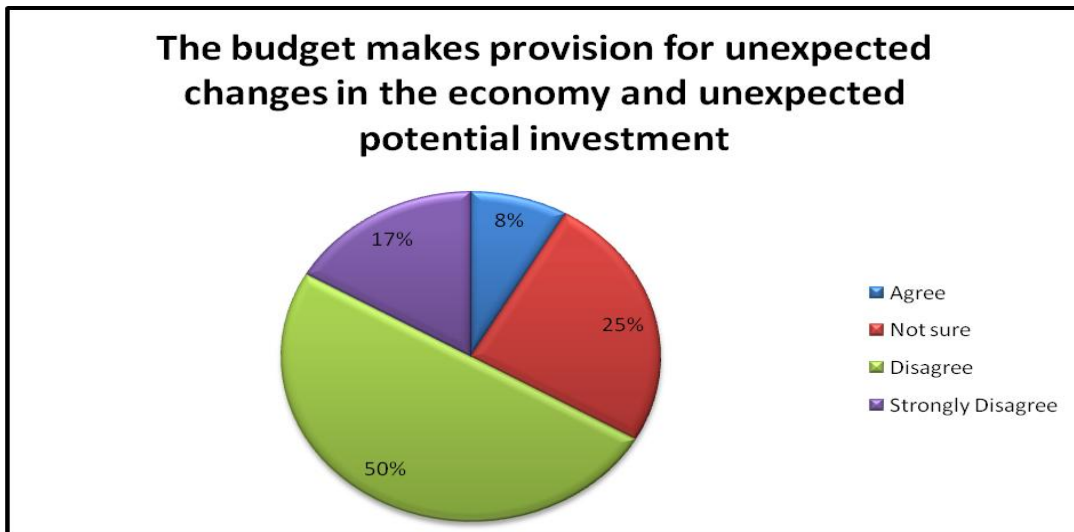


Figure 11: The use of Excel in the budgeting process



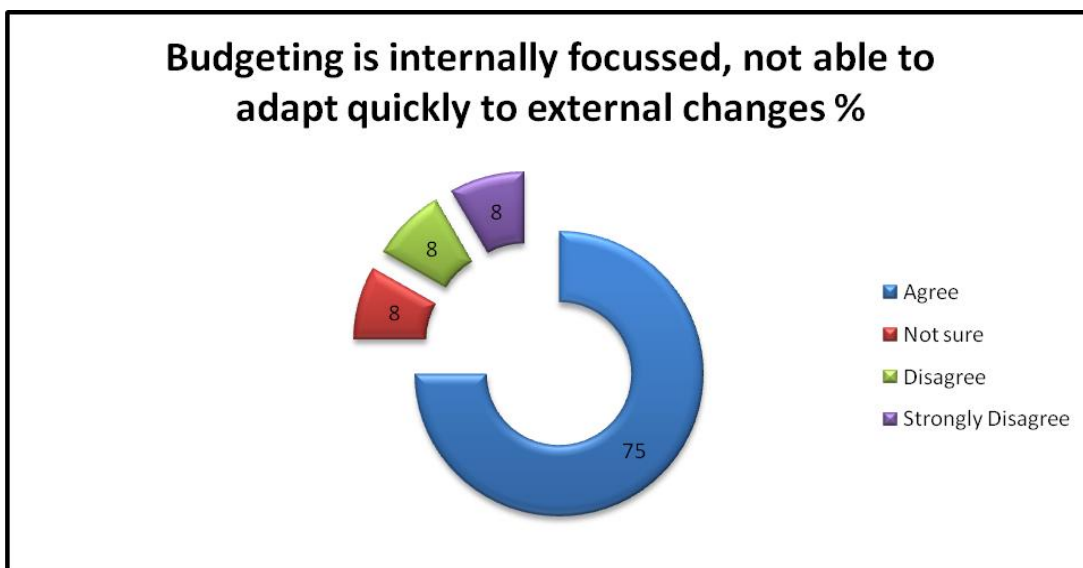
Participants were asked on the role of Excel in the budgeting process. It was concluded that the company still rely 100% on Excel in the budgeting process.

Figure 12: The budget makes provision for unexpected changes in the economy and unexpected potential investment



More than 50% of the respondents disagreed or strongly disagreed that the budgeting process makes adequate provision for unexpected changes in the economy or unexpected potential investment. Not one of the participants chose the strongly agree option.

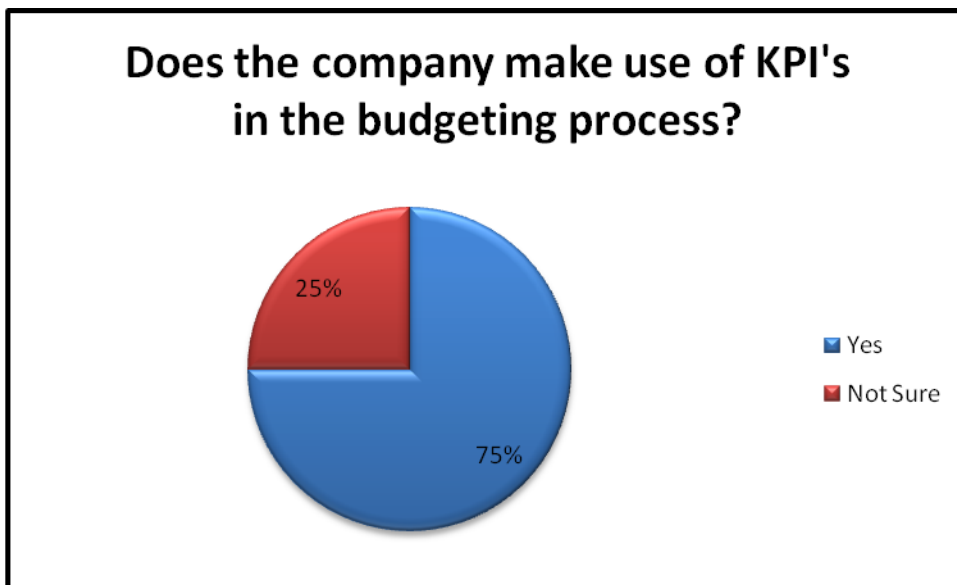
Figure 13: The budgeting process is not able to adapt quickly to external changes



It is noted that 75% of the respondents agreed that budgeting is internally focussed and not able to adapt promptly to changes in the economy. Not one of the participants chose the option strongly agree and only 1 participant chose the option disagree and one participant chose the option strongly disagree.

In order to understand the budgeting process of the company, the use and the implementation of key performance indicators were investigated. It is evident that the company makes use of KPI's in the budgeting process as 75% of the respondents agreed on the use of KPI's. The 25% respondents that are not sure whether KPI's are being used in the company can be classified as accountants. 3 out of 4 of the accountants were not sure about the use of KPI's in the budgeting process.

Figure 14: Key performance indicators (%)

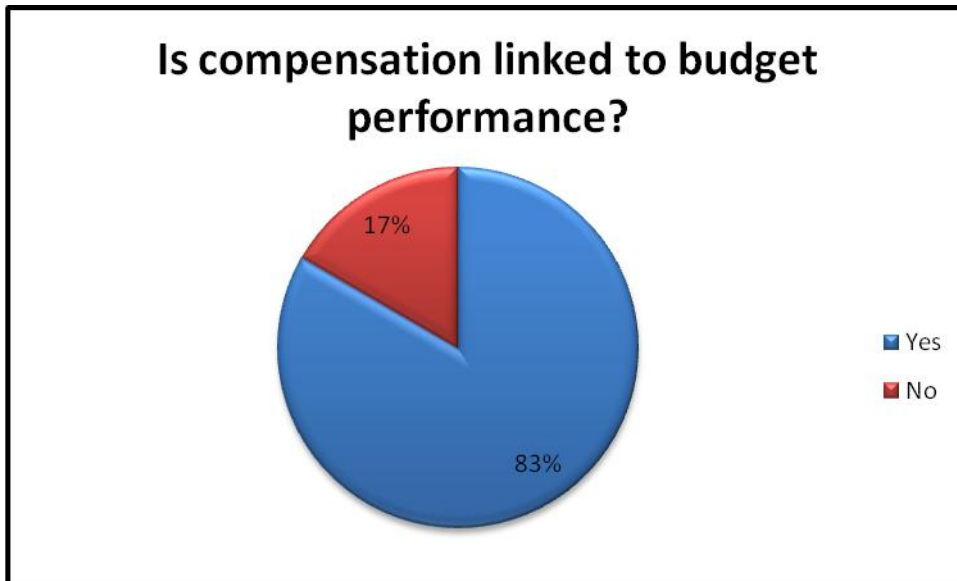


The participants were asked to list the KPI's that are implemented in their divisions. From this it is clear that manpower and vehicle cost are the most important KPI's in the budgeting process.

Table 9: Key performance indicators used in the company

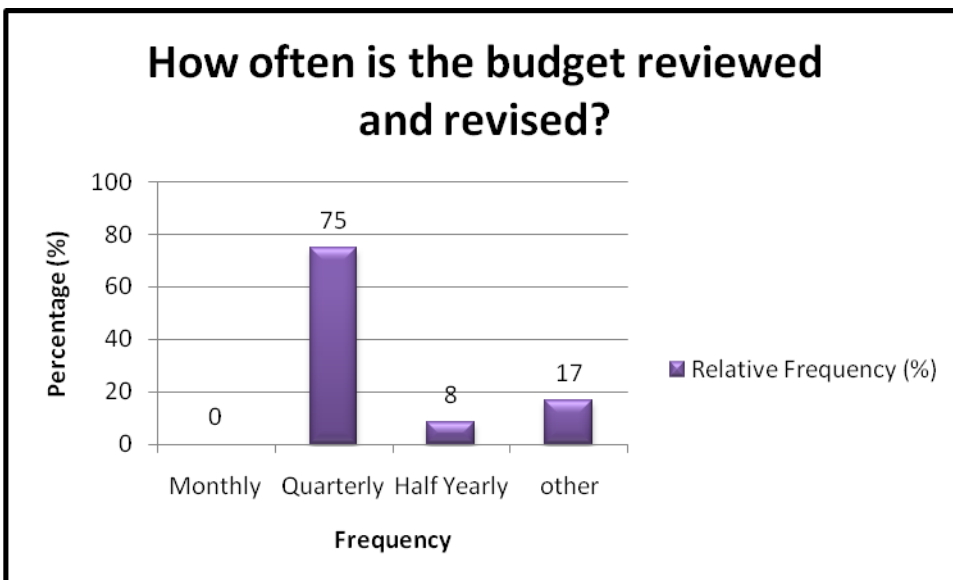
List of KPI's identified	List of KPI's identified
Vehicle Expenses	Payroll
Nett profit margin	Vehicle Expenses
Salaries	Amount and containers clamped
Sales and Marketing development	Revenue versus salaries ratio
Long term contracts	Vehicle costs versus revenue ratio
Weighted average CMF	Vehicle cost
Wage to Revenue %	Manpower cost

Figure 15: Compensation linked to budget performance



It is evident that compensation or bonuses are linked to budget performance. Only two of the respondents did not agree that compensation is linked to budget performance, one accountant and one financial manager.

Figure 16: Budget review and revision

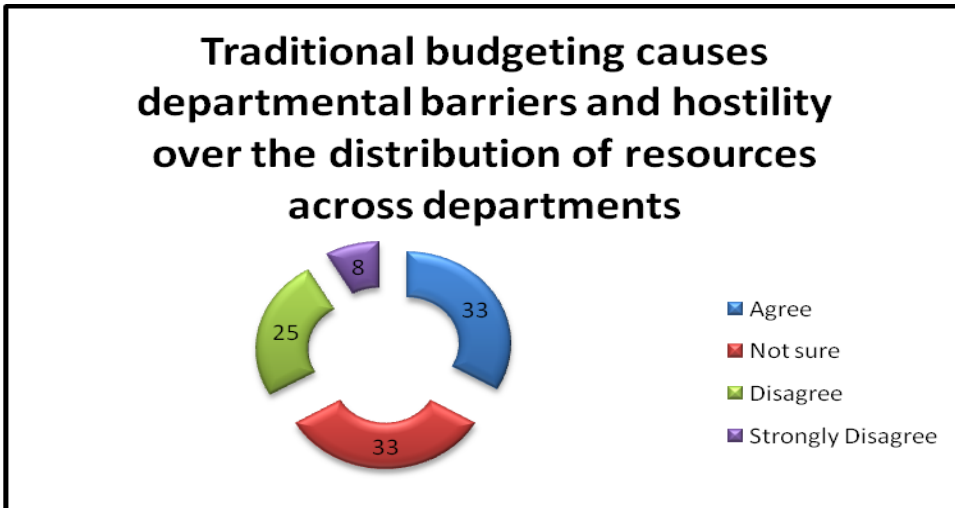


The respondents were asked how often the budget is reviewed and revised and 75% of the respondents agreed that the budget is reviewed and revised every quarter. Only one

respondent, an accountant chose the half yearly option. Two of the respondents chose the 'other' option and explained it as follows:

- Once yearly, forecasts are done more often.
- Once the budget is complete it will be used for the entire year.

Figure 17: Traditional budgeting causes departmental barriers and hostility over the distribution of resources across departments (%)



33% of the participants are not sure if traditional budgeting causes departmental barriers and hostility over the distribution of resources across different departments.

The participants were asked to indicate the budget process step by step. From the answers the following broad process was identified.

Figure 18: Budgeting process of the company

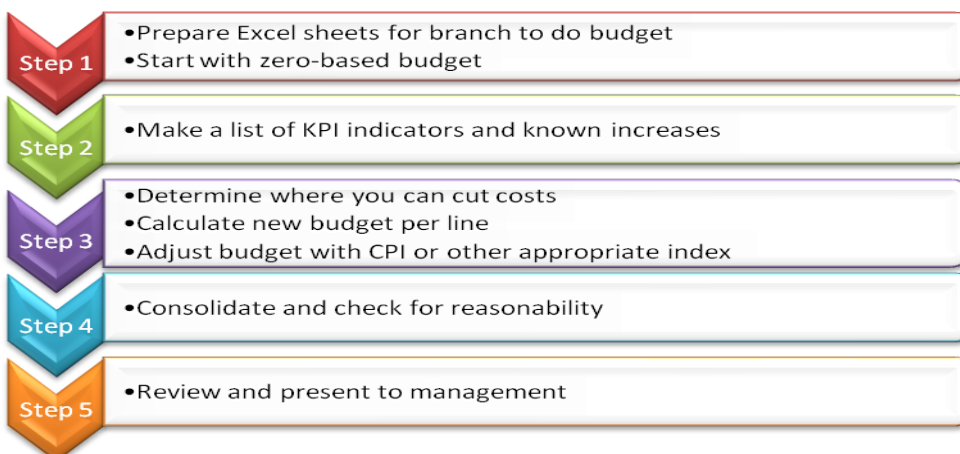
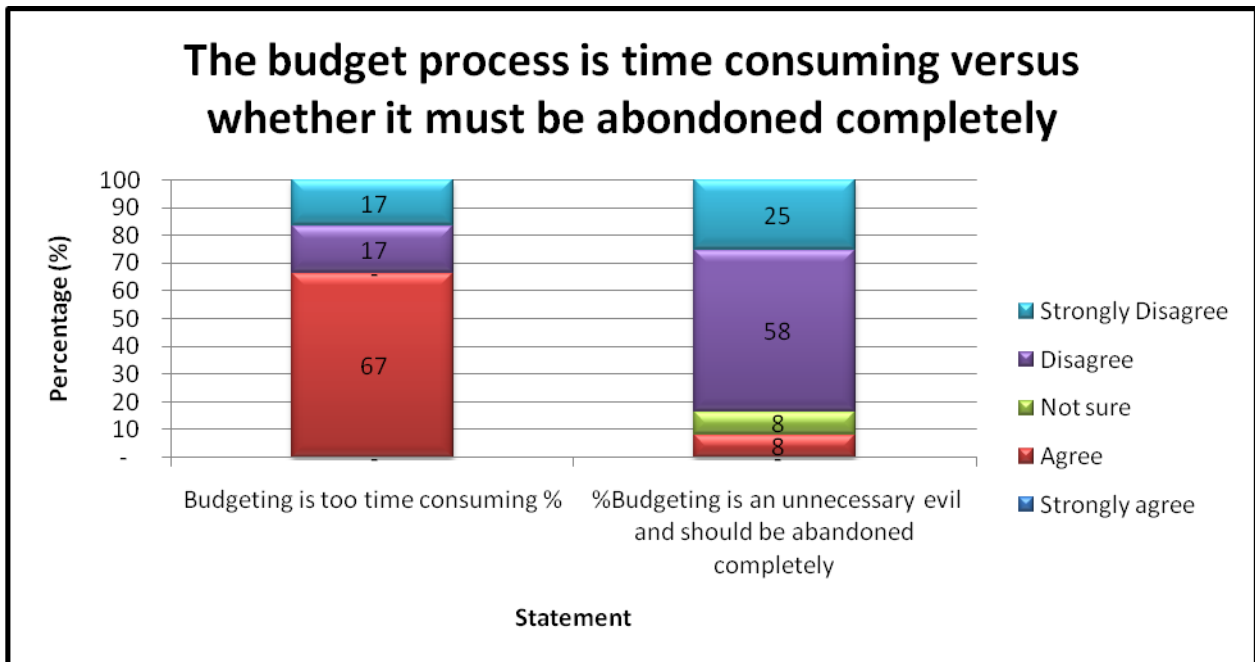


Figure 19: The budgeting process is time consuming versus whether it must be abandoned completely



It is noted that 67% of the participants find the budgeting process too time consuming but it is clear that the participants do not want to abandon the budgeting process. As seen below, of the 67% of participants that find the process too time consuming, 33% are accountants and 33% are financial managers.

Figure 20: The budgeting process is too time consuming per job title

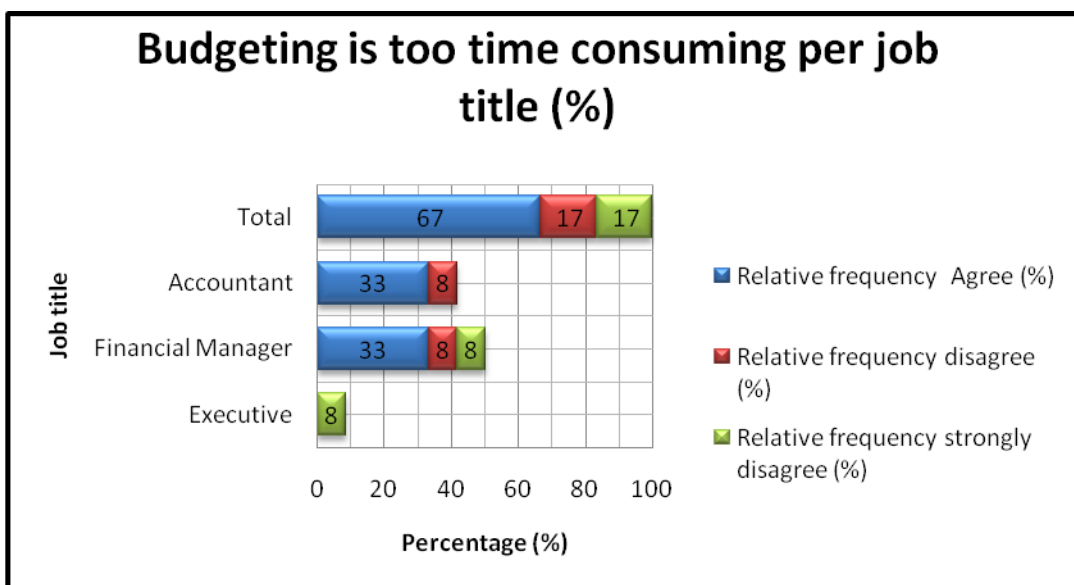
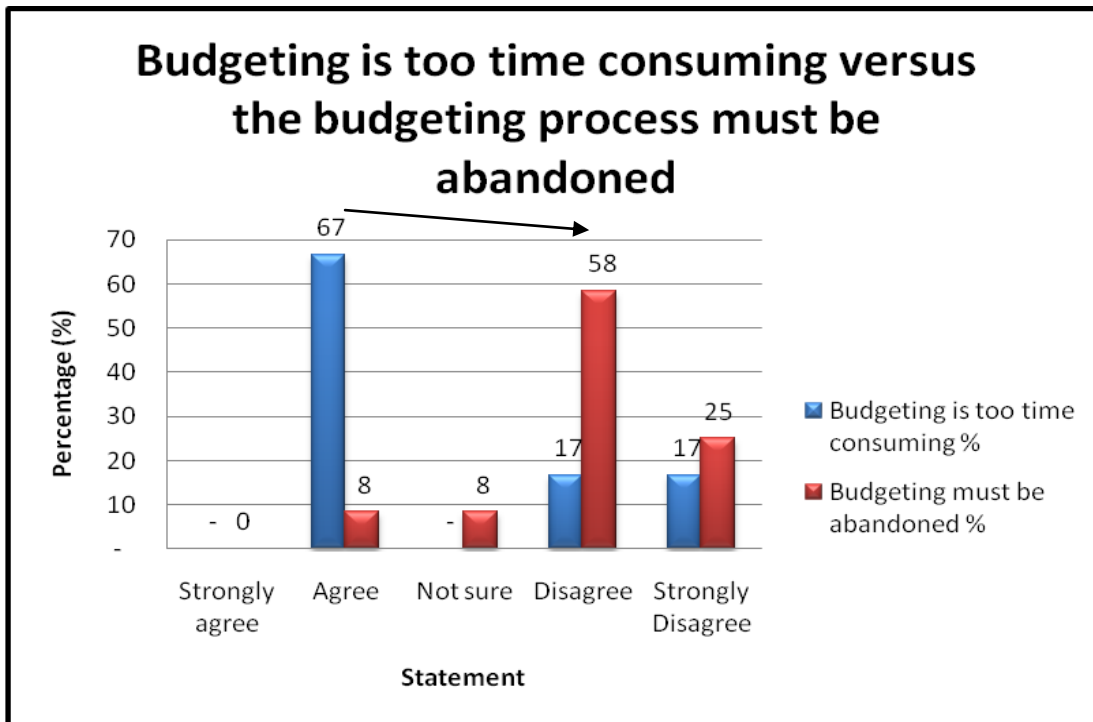
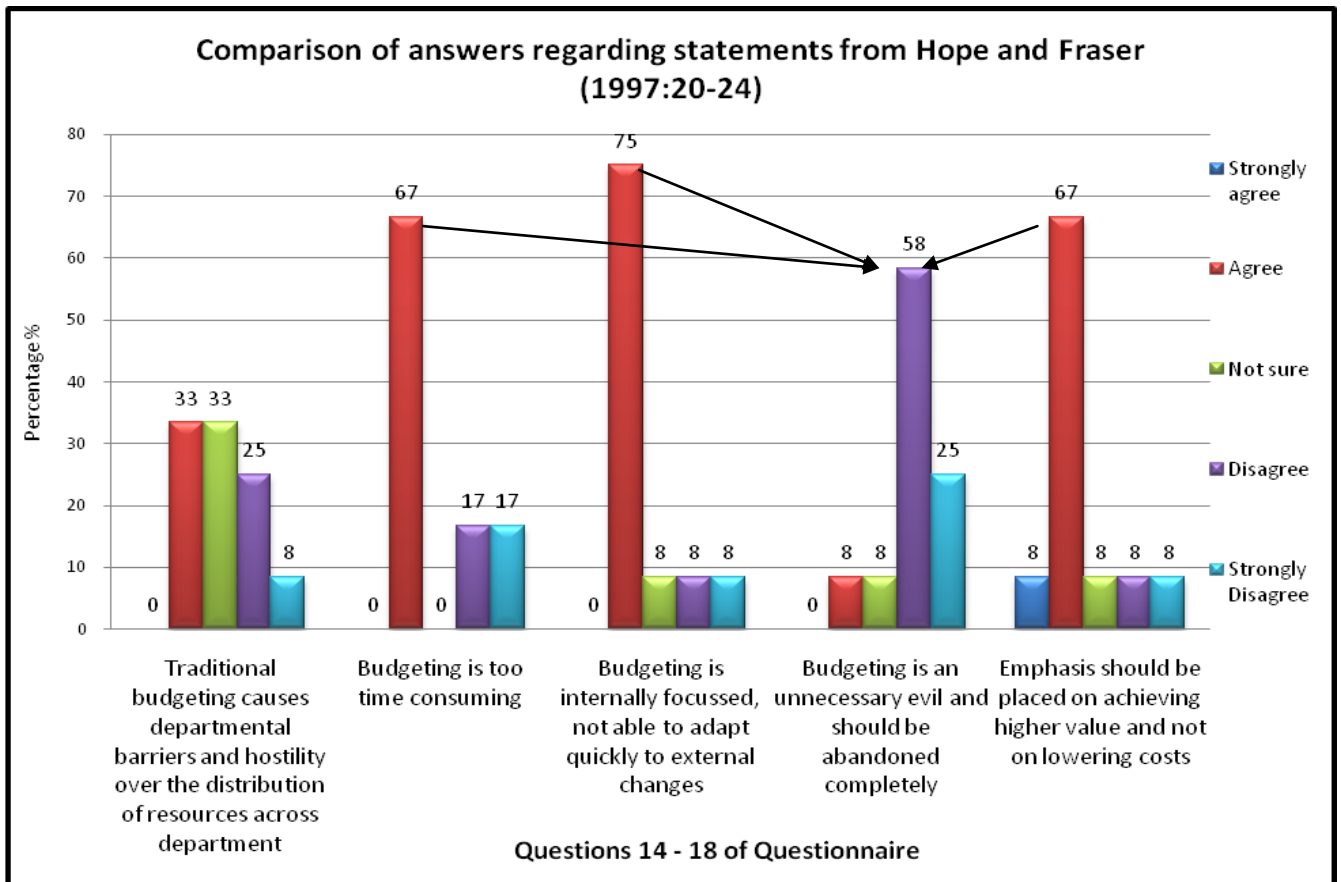


Figure 21: Budgeting is too time consuming versus the budgeting process must be abandoned



The following ranked questions were asked to determine the overall feeling about the budgeting process. It is clear that the participants find that the budgeting process is too long, internally focussed and that emphasis must be places on higher value rather than just cutting back on costs. It is clear that the budgeting process is criticised but that participants are not willing to abandon it completely.

Figure 22: Comparison regarding statements from Hope and Fraser (1997:20-24)



The following section includes the results obtained from the semi-structured interview conducted with the CFO.

4.3 SUMMARIZED FINDINGS OBTAINED FROM THE INTERVIEW

The following findings were obtained during the semi-structured or in-depth interview with the CFO regarding the budgeting process of the company. The company has a net operating profit of hundred and forty million on average per annum and had 16658 employees in June 2012. This excludes the number of employees working in the United Arab Emirates. The company has eight major divisions and is active in the Safety and Securities industry of South Africa. The interview can be classified as semi-structured and only 15 out of the 22 questions were asked and answered. The 15 questions that were asked are highlighted in yellow in Annexure 1. The following is a summary of the in-depth look at the budgeting process of the company.

The budgeting process commences in April every year and all the different divisions prepare a twelve month budget for July to June the next year. This is the same as the financial year of the company. The company makes use of a zero base and usually makes use of March as the starting point. Certain assumptions are made regarding fuel costs, salaries and special projects. When the budgeting process commences management meetings are held with managers and executives to discuss the strategic vision. The budgeting process for most of the divisions starts at branch level. This is then sent to the financial manager of the division where it is consolidated. In essence as explained by the CFO, every financial manager acts as a financial director for his or her own division and the executive of the division acts as the CEO. This is important as it forces accountability and responsibility. When the operational executive approved the budget it is then submitted to the CFO. The following step includes a budget meeting with the financial manager, executive and CFO. In this meeting the financial manager and executive has to justify and explain their budget to the CFO. The same process is followed for all the divisions for budget approval. The CFO then consolidates the budget and submits it to the Group. The CFO in turn also then has to explain and justify the budget to the Group for approval. This is the process for the annual budget. It is interesting to note that the annual budget submitted to the Group is never amended during the year. The budget has a simple structure that combines different general ledger lines. It is important for the CFO that managers only budget for the expenses or income that they could have control over. Fixed overhead expenses for example insurance is charged as an administrative fee that is budgeted for by the CFO for all the divisions. The CFO explained that they operate on a 20/80 scale meaning that they want to focus on fewer line items that drives the largest expenses. It is important to note that changes to the annual budgeting process will be difficult to implement as there will always be restrictions from the Group. The Group makes an effort to understand the budgets of the different companies as it is diverse. The following additional methods of planning were identified during the interview:

- Zero-based budgeting.
- Quarterly forecasts in order to stay in line with the actual figures.
- Regular strategic management meetings to discuss major differences and to keep everyone on the same track.
- Combining different general ledger lines in the form of overhead charge.

- Strategic goals and planning with the different divisions combined with monthly management meetings.
- Risk reviews with financial managers.
- Performance bonuses for management linked to budget performance as well as to debtors' book, profit, growth, BEE and manpower and other operational issues.
- 5 year forecast done every year by the CFO that is focussed on capital intense planning that compliments company strategy and current economic conditions.

The average amount of time spent on the budgeting process by the CFO is three weeks and the whole process lasts for about two months. The quarterly forecasts do not take a significant amount of time to prepare. The CFO regards the time spent on the budgeting process as justified. The budgeting process enables the CFO to put a pen in the ground and use the budget as a map of where everyone is suppose to go. It gives direction, responsibility and aligns strategy. The budget is an important tool not only to align strategy but to keep track of cash flow.

In order for the company to keep the budget relevant, a quarterly forecast was implemented. This is used in conjunction with the annual budget. Performance bonuses are linked to budget performance and are structured as follows:

- 50% based on yearly performance
- 50% split between the other three quarters

It is important to note that the performance bonuses are based on budgeting performance as well as a combination of other indicators. The reason for the monthly management meetings is for the financial manager to explain any variances versus the budgeted figures and the actual figures. Only the first quarter's performance bonus is linked to the annual budget, thereafter it is measured with the quarterly forecasts. The reason for this is that if there was a mistake on the original budget or a major indicator has changed the financial manager does not get penalised throughout the entire financial year. It is important for the CFO to keep the role players positive and to rather keep moving forward. CFO understands that in order to keep staff motivated they must not get penalised for an entire year as then they might not try to move things forward. During this monthly meeting new and lost contracts are discussed and this is submitted to the Group. This forms part of

strategy to keep an eye on new business as well as business lost. This is also used to determine how well the company's clients and contracts are diversified.

It is interesting to note that financial managers have the freedom to think out of the box during the budgeting process. As discussed earlier each financial manager and executive takes ownership of their division. The costs included in the budget then have to be clarified and explained to the CFO for final approval. The budget is in a standard format to simplify the consolidation process and to adhere to the Group's rules. Because of the extreme diversity of the different divisions some of the divisions budget according to projects and other divisions according to site or branch level. One of the divisions does their budget according to cash volumes. The CFO would like to break it even more down in the future and budget according to each vehicle. Vehicle and manpower is the largest expenses for the company as a whole. It would be interesting to link profit and expenses to a specific vehicle.

The budget does combine different general ledgers into one line. This is that financial managers and executives are only held accountable for the expenses that they could influence. Overhead charges were implemented where divisions pay a percentage of revenue as an overhead charge. KPI's is determined by investigating the major expenses and factors that drives income. Vehicle costs, manpower and debtors book is the major KPI's in the company. For some of the divisions' inventory turnover plays a role. It is important to note that the company has a fleet of approximately 1400 vehicles. The company included a reporting tool named Qlickview that is used to determine KPI's and to compare actual figures and budgeted figures. The budget information is imported form Excel and the actual figures are drawn from SAP.

The biggest frustration in the budgeting process is the use of Excel. Problems associated with Excel are that formulas do not always pull through or pivots are drawn on incorrect data. Because the annual budget is only submitted once and is never amended, a mistake on the budget is there for the duration for the twelve months. It is the wish of the CFO to in the future move away from only using Excel. It would be difficult to implement a specialised program because of the great diversity of the different division. The CFO would

like to implement a master budget where managers could for example only input the make amount of vehicles in use and then the figures are calculated automatically.

Overall the CFO is satisfied with the current budgeting process with the implementation of the quarterly forecasts. The process of holding managers accountable for their divisions is a positive contribution to the budgeting process. The fact that the budgeting process is not just forced down by top management but are done by lower levels of management makes the budgeting process more successful.

4.4 CONCLUSION

This chapter has outlined the findings of the questionnaires and the semi-structured interview conducted with the CFO. An overview of the perceptions regarding the budgeting process and the actual budgeting process were discussed. It is noted that the company still implements the traditional annual budget but also incorporates many of the alternative methods of planning as introduced in Chapter 2. The final chapter includes conclusions and recommendations regarding the budgeting process of the company.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this study was to determine whether the traditional budget is still in use and whether alternative budgeting methods are used in conjunction to the traditional budgeting process to make it more effective. This chapter provides a brief summary of the conclusions made regarding each research objective. Finally, conclusions and possible recommendations are suggested for further research.

5.2 CONCLUSIONS ON EACH RESEARCH OBJECTIVE

The table below includes a brief summary of the conclusions made on each of the research objectives of the study. It will be followed by a detailed discussion, relation to theory and recommendations for further study.

Table 10: Conclusions on each research objective

Research objectives	Conclusion on the research objectives
To determine alternative ways of controlling costs that are more reliable, updated and useful than traditional budgeting.	The following alternative methods was identified: <ul style="list-style-type: none"> • Quarterly forecasts • Monthly strategic management meetings • Combining general ledger lines on the budget in the form of an overhead charge • Zero-based budgeting
To identify the advantages and disadvantages of the budgeting process and to determine the importance it has on an organisation's bottom line.	Budgeting is internally focussed. Budgeting is too time consuming. The budget does not make provision for unexpected changes in the economy. Using Excel in the budgeting process causes great frustration to management and the company is willing to swap it for a more specialised master budget program. An advantage of the budgeting process is the fact that it provides a map and thus acts as a strategic tool.

<p>To determine whether the traditional budget is still being used and the explanation of its existence in the event that it is still being implemented in a South African context.</p>	<p>The twelve month annual budget is still in use. The reason for this is that the company has to submit this budget to the Mother company of the group. The participants of the budgeting process are unwilling to abandon the budgeting process.</p>
<p>To determine whether a South African company combines different planning methods to suit its specific planning needs.</p>	<p>The company includes the following different methods:</p> <ul style="list-style-type: none"> • Zero-base budgeting • Quarterly forecasts • Continuous strategic and budget meetings • Fewer general ledger lines in the form of overhead charges to the different divisions • Implementation of KPI's • N-form model of decentralisation of ownership
<p>To determine how key performance drivers for planning purposes are chosen.</p>	<p>The company implements the 20/80 ratio. They focus on fewer items that drive the largest percentage of expenses.</p> <p>Specialised reporting tool Qlickview is used to determine KPI's.</p> <p>Manpower and Vehicle expenditure are the most important KPI's used in the company.</p>
<p>To determine the relevance of traditional budgeting when combined with alternative planning methods for a South African company.</p>	<p>The company is satisfied with the current budgeting method with the exception of using Excel. The traditional budget is not efficient in isolation but is still used as a strategic tool to indicate a map of where the company is heading. It is assisted by other methods to make it more timely and accurate. These alternative methods for this South African company includes:</p> <ul style="list-style-type: none"> • Zero-based budgeting • Decentralisation of responsibility, forces management to take ownership for their division's performance • Monthly management meetings to discuss

	<p>variances and refocus strategy</p> <ul style="list-style-type: none"> • Quarterly forecasts • The implementation of KPI's • Management bonuses are not just linked to budget performance but other indicators
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The following conclusions can be drawn from the findings in Chapter 4. One of the research objectives was to find the advantages and disadvantages of the budgeting process for a specific company. It can be concluded that most of the employees feel positive when hearing the word budget. Most of the employees see the budgeting process as a strategic tool. This corresponds with the reason that the CFO gave for justifying time spent on the budgeting process. Half of the questionnaire respondents find the budgeting process a waste of valuable time. In relation to theory and previous research the time spent on the budgeting process is one of the biggest draw backs of the budgeting process.

Employees value the budgeting process and 83% of the respondents are not willing to abandon the budgeting process. This corresponds with the positive connotation regarding the process when respondents had to record the first word that comes to mind when hearing the word 'budget'. It is important to understand that 33% of the respondents that felt that the budgeting process is a waste of time were not willing to abandon the process completely. This is in line with the 100% satisfaction that the CFO has regarding the companies budgeting process. It is interesting to take note that 67% of the respondents find that the budgeting process is too time consuming. The annual budgeting process consumes about two months of the participants time. During the year it consumes time to do the forecasts and explain deviations between the budget, forecasts and actual figures.

As seen in previous research displayed in Chapter 2, the use of spreadsheets in the budgeting process has many disadvantages. This is also true for the Case study. It is easy to copy incorrect formulas and draw pivots on incorrect data when using spreadsheets in the budgeting process. This is the cause of great frustration as mistakes roll over and the annual budget that was submitted to the Group remains unchanged for the entire year. According to previous research another disadvantage of the budgeting process is the fact that the budgeting process is internally focussed and not able to adjust quickly to external

changes. In the findings of the questionnaire it was indicated that 75% of the respondents agreed that the budgeting process cannot adapt quickly to external changes. This is the reason for the implementation and use of the quarterly forecasts in the budgeting process. The quarterly forecasts are used to keep the budgeted figures as close to reality as possible. Monthly management meetings and strategic sessions forms part of the alternatives to keep the budget relevant.

One of the other disadvantages of the budgeting process is the fact that performance bonuses are linked to budget performance. The company does link bonuses with budget performance as indicated by 83% of the respondents. The reason why this cannot be seen as a disadvantage to the company is the fact that the performance bonuses are linked with other factors and not just with budget performance. Performance bonuses to management are linked to factors including debtors' book, operational issues, growth and budget performance. Bonuses on budget performance can be a disadvantage because it could influence employees to be dishonest in the budgeting process. From the research it is evident that the respondents feel that the budgeting process is honest and that there are various measures for management to be held accountable and explain budgeted figures to top management. The respondents explained in the questionnaire that the budgeting process can be accepted as being honest because management expect divisions to operate at certain margins, by review and acceptance of the budget by top management and finally because of the implementation of KPI's. Another disadvantage of the budgeting process is that it only focuses on lowering costs and not adding significant value to products or services. It is important to note that 67% of the respondents agreed that emphasis must be placed on achieving higher value and not lowering costs. This is confirmation that the company has a strong strategic goal and is striving to be the leader in the market.

5.3 IMPLICATIONS

This study has highlighted that this specific South African company still makes use of the 12 month annual budgeting process. In order for the company to stay relevant it introduced various alternative methods of planning in conjunction with the traditional budget. This implied that the traditional budget was not abandoned for an alternative method of

planning. Alternative or modern ways of planning is running harmoniously in line with the traditional budgeting process. The budgeting process is completely unique to this company as it combines different planning and strategic management tools to ensure that the budgeting process is as efficient as possible. It is emphasised that the company uses the budgeting process as a strategic tool that combines strategic meetings and strategic work sessions. The budget is used as a map for strategic planning, as a basis for performance bonus calculation and for different levels of management to be held accountable for their specific divisions. The budgeting process can be seen as the heart of strategic planning.

5.4 CONCLUSION AND RECOMENDATION FOR FUTURE RESEARCH

This study was introduced as an exploratory study to determine the uniqueness of a company's budgeting process. It is evident from the research that this company has implemented various forms of planning and budgeting in order for the budgeting process to remain relevant. As this study is limited to a single case, it will prove interesting to invest in a larger scale study in order to draw conclusions on the South African population as a whole. Further research on the uniqueness of the budgeting process in South Africa can be conducted. The in-depth look into the case study's budgeting process proved that this single company makes use of a unique budgeting process. They implemented several of the alternatives that were discussed in Chapter 2. Not only did they implement alternative planning methods but they still make use of the traditional budget that has to be submitted to the Group every financial year. A larger scale study can be conducted to investigate the unique budgeting process of companies in South Africa.

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Annexure 1: Data collection instruments

QUESTIONNAIRE INSTRUCTIONS

Mark the most appropriate response to each question by making a cross in the block that best describes your opinion, unless otherwise stated. If a description is required, please briefly express your opinion. Please elaborate or give a brief explanation when the option 'Other' is chosen.

1. Please indicate your position at the company:

(A)	Executive	
(B)	Financial Manager	
(C)	Accountant	
(D)	Other	

If you chose the option "**Other**"- please specify:

2. Please write down the first word that comes to mind when hearing the word 'budget':

3. Please describe your role in the budgeting process step by step. How you calculate figures ect. From start to completion.

Step 1. _____

Step 2. _____

Step 3. _____

Step 4. _____

Step 5. _____

4. How often is the budget reviewed and revised?

(A)	Monthly	
(B)	Quarterly	
(C)	Half yearly	

(D)	Other	
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If you chose the option “**Other**”- please specify:

5. Does the company make use of a Balanced Scorecard? :

(A)	Yes	
(B)	No	
(C)	Not Sure	
(D)	Have never heard of a Balanced Scorecard	

6. Is compensation linked to budget performance (in the form of bonuses ect.)? :

(A)	Yes	
(B)	No	
(C)	Other	

If you chose the option “**Other**”- please specify:

7. Does the company make use of key performance drivers in the budgeting process? :

(A)	Yes	
(B)	No	
(C)	Not Sure	

If the response is ‘**Yes**’, please indicate the key performance drivers used in your division below:

8. Does the company rely on Excel spreadsheets for the budgeting process? :

(A)	Yes	
(B)	No	

If the response is ‘**No**’, please specify the other tools used in the budgeting process:

9. Do you find that the budgeting process is frustrating and a waste of time? :

(A)	Yes	
(B)	No	

Please explain a 'Yes' or 'No' answer below:

10. How is honesty in the budgeting process enhanced (e.g. not overstating expenses and underestimating income)?

11. The budget makes provision for unexpected changes in the economy and unexpected potential investments?

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

12. Please indicate any other planning methods used in conjunction with the budgeting process in your organisation to efficiently plan for the future (e.g. different strategies, scorecards)?

13. What planning methods would you implement if you were the CEO of the company? Please think out of the box and be creative.

**Questions 14-18 are based on statements from Hope and Fraser (1997:20-24).
Choose the best suited option:**

14. Traditional budgeting causes departmental barriers and hostility over the distribution of resources across department.

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

15. Budgeting is too time consuming.

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

16. Budgeting is internally focussed, not able to adapt quickly to external changes.

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

17. Budgeting is an unnecessary evil and should be abandoned completely.

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

18. Emphasis should be placed on achieving higher value and not on lowering costs.

(A)	Strongly Agree	
(B)	Agree	
(C)	Not Sure	
(D)	Disagree	
(E)	Strongly Disagree	

Only the questions highlighted in yellow were asked as per flow of the conversation.

Research Questions: Interview with the CFO

1. What is the average operating profit of the company?
2. Please indicate the number of employees of the company.
3. Please indicate the number of employees that is part of the budgeting process.
4. Please indicate the current method of budgeting used in the company.
5. Would management consider an alternative way of planning/budgeting? Would this be difficult to implement?
6. Is performance bonuses linked to budgeted performance, or how well the budget was met or targets exceeded?
7. What is the average amount of time spent on the budgeting process and review? How can this be justified?
8. Does the budget combine many GL expenses into one line?
9. Is volatile costs and volatility considered and included in the budget?
10. Do you mainly use spreadsheets to collect, consolidate and analyse the numbers of the budget? Has using Excel in the budgeting process ever had disadvantages? Would you consider implementing a more specialised program?
11. Is specialized computer programs and software used in the budgeting process?
12. Do all the employees understand the budget and are they aware of how they can impact costs?
13. How often are changes made to the budget because the original budget is not relevant anymore?
14. Please indicate the cycle of the budgeting process used in this company, e.g. Yearly, half yearly, quarterly or monthly?
15. Would special projects or investments be considered even if was not part of the initial budget, and taking on these project would over spend the budget?

16. What action is taken when the budgeted figures differs significantly from the actual figures?

17. Does management make use of the balanced scorecard as part of the planning process?

18. Are there any restrictions on the budgeting process for the Group?

19. Is it difficult to implement the same budget structure for different divisions in the company? Is the budgeting process unique for every division?

20. Is there room for managers to think out of the box and use their creativity in the budgeting process?

21. How does the company determine KPI's?

22. How satisfied are you with the current budgeting method and why would you say that it is successful? Where can the budgeting process still be improved?

Annexure 2: Informed consent form



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Faculty of Economic and
Management Sciences

Informed consent for participation in an academic research study

Dept. of Financial Management

TITLE OF THE STUDY

The incorporation of alternative budgeting methods relative to the use of the traditional budgeting method.

Research conducted by:

Ms. A Meintjies (24045782)

Cell: 082 490 9884

Dear Respondent

You are invited to participate in an academic research study conducted by Adele Meintjies, a Masters student from the Department of Financial Management at the University of Pretoria.

The purpose of the study is to clearly understand the budgeting process of the company and to determine the alternative methods of planning in use.

Please note the following:

- This study involves an anonymous questionnaire. Your name will not appear on the questionnaire and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 30 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Prof. H.P Wolmarans Hendrik.Wolmarans@up.ac.za if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

Respondent's signature

Date

Annexure 3: Data matrix of questionnaire

Question number	Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	Total Count
Q1	Please indicate your position at the company	2	2	3	3	2	2	2	3	3	2	2	1	12
Q4	How often is the budget reviewed and revised ?	2	2	2	4	2	2	2	4	2	2	3	2	12
Q5	Does the company make use of a Balanced Scorecard?	2	2	1	3	3	2	2	3	3	2	4	2	12
Q6	Is compensation linked to budget performance (in the form of bonuses ect.)?	1	1	1	1	1	1	1	2	1	1	2	1	12
Q7	Does the company make use of key performance drivers in the budgeting process	1	1	1	3	1	1	1	3	3	1	1	1	12
Q8	Does the company rely on Excel spreadsheets for the budgeting process?	1	1	1	1	1	1	1	1	1	1	1	1	12
Q9	Do you find that the budgeting process is frustrating and a waste of time?	1	2	1	2	1	1	1	2	2	2	1	2	12
Q11	The budget makes provision for unexpected changes in the economy and unexpected potential investments?	4	4	2	3	3	5	3	4	4	4	4	5	12
Q14	Traditional budgeting causes departmental barriers and hostility over the distribution of resources across depts	4	4	2	2	2	3	3	3	3	4	2	5	12
Q15	Budgeting is too time consuming	5	4	2	2	2	2	2	2	2	4	2	5	12
Q16	Budgeting is internally focussed, not able to adapt quickly to external changes	2	2	2	2	2	2	2	2	3	4	2	5	12
Q17	Budgeting is an unnecessary evil and should be abandoned completely	5	4	4	4	3	2	4	4	4	5	4	5	12
Q18	Emphasis should be placed on achieving higher value and not on lowering costs	2	2	2	2	2	1	3	4	2	2	2	5	12

Formulas used:

Relative Frequency = $\frac{\text{Frequency of the class}}{n}$

n

Mode = The mode is the value that occurs with greatest frequency

Budgeting process identified:

