



Budgeting as a strategic enabler.

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Abstract

Budget and budgeting have become more than just control mechanisms over the past few years. They are seen as functions for strategic planning and a method to implement or assist the strategy implementation. The research report investigated whether the budget is a strategic enabler though different contributors of the budgeting process.

In previous research the dissatisfactions of the budgetary process were identified, but this excluded the impact that the budget process had on the strategic plans of an organisation. Other research was done on how strategy was done in organisations, but not which methods or instruments were used to implement strategy in organisations. This study investigated the experiences and the views of financial and non-financial senior managers and executives on the budgetary process factors that would influence the implementation of the strategic plan of the organisation. In order to understand the views of the participants, a qualitative research approach was taken in the form of semi-structured expert interviews.

The findings reflect that some of these factors that were identified do contribute to the budgeting process and to the budget for being a strategic enabler in an organisation. The surprising findings were that the non-financial respondents did not believe that the use of balanced scorecards would attribute to the implementation of a strategy and that the respondents did not agree to the cycle time of the budgets proposed.

Keywords

Budgeting

Strategy

Rolling Forecasts

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination at any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research

Signed:



Marinda Hutten (Miss)

Date:

2012/10/31

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Chapter 1 Introduction to Research Problem

1.1 Background

1.1.1 The Organisation within the business environment:

Organisations cannot succeed by standing still. If a company is not improving, then its competitors will soon catch up. The success and growth of a firm within the local and global environment necessitates a constant gauging of their internal performances with the external environment, seeking new opportunities, minimising threats and meeting challenges that are ever changing each day (Park, Lee, Turner, and Kilbourne, 2011). The business world continues to move faster towards an expanding global environment in which there are more and more competitors trying to take greater market share (Park *et al.*, 2011).

Environmental Dynamism is defined as the degree to which factors in the organisation's environment remain constant or continually fluctuate over time (Wong-On-Wing, Guo, and Lui, 2010). Organisations without clear and sustainable strategies for long term success are inevitably destined to falter among a fiercely competitive sea of competition (Park *et al.*, 2011). For any sustainability, strategic management and strategy planning are imperative. The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners and shareholders, involving utilisation of resources to enhance the performance of the business to their external, national and at times international, environments (Huang, 2009).

1.1.2 Dynamics of the organisation

Moving from the shareholder/owner's vision, the manager's task and focus are to develop strategies and to improve the firm's competitive advantage and performance (Park *et al.*, 2011). Developing, deploying, and sustaining a continuous improvement process, or planning for the plan, is truly the essence of a strategic plan because it ensures focus on execution, continuity, and intervention, if necessary (Thomson,

2007). The continuous growth and need to face complexity becomes permanent items in the strategic agenda of large companies, along with extremely competitive market conditions and new governance which impact costs and superior performance (De Carvalho Rezende and Nogueira, 2010).

Once the strategic goals have been set, finance translates this to the specifics by assessing the risks, critical drivers, assumptions about rates of increase or decrease of resources, timeline and the accuracy of data used to drive the analysis (Conneely, 2010). This process involves the integration of inputs and assigning values to expectations concerning the operating and financial performance and position of the business (Cassar and Gibson, 2008). The strategic plan should be conceptual, visionary and directional (Huang, 2009).

Dealing with the acquisition and use of such resources over a specific period of time by management is a budgetary tool (Uyar, 2009). Most companies use budgets, since they provide a framework for strategic direction and operational control (Orlando, 2009).

1.2 Problem definition

1.2.1 Budget

A definition of a budget is the quantitative expression of a proposed plan of action by management for a specific period, and an aid to coordinating what needs to be done to implement that strategic plan (Uyar, 2009). Budgeting is a process whereby an organisation's financial resources are allocated to its units, activities and investments for profit, market share and growth (Uyar, 2009). The budget process transfers information into decisions (Schick, 2007). Budgeting is a dynamic process depending much on the habits of thoughts and mutual expectation as on formal regulations (Lu, 2011). Within this process the budget is used to evaluate the dynamics of the company in terms of position, direction, viability and tempo of adapting internally to external economic factors (Miller and Galeaz, 2007). Budgeting is used for many purposes, including planning and coordinating an organisations activity, allocating resources, motivating employees and expressing conformity with social means (Covaleski, Evans

III, Luft, and Shields, 2003). The budget is thus a refinement of the strategic plan considering the conditions in the future; opportunities and threats; and adapting the organisation timely to it (De With and Dijkman, 2008). There are many diverse budget types in the economic environment for capital, sales, expense, working cost and cash. All of these are transferred into one budget for the organisation (Rivera and Milani, 2011).

1.2.2 Budget and Strategy

Strategy can be interpreted as the direction in which a company is heading to, through leveraging its competencies to meet the external environmental demands to survive and grow. Without strategy in a company, the survival and/or the sustainability of that company is negatively impacted (Uyar, 2009). Strategic budgeting is defined by its specific linkages to the institution's strategic plan and detects; through the strategy and financial forecasts and future implications for current budgets (Conneely, 2010). A strategic indicator in the organisation's strategic plan measures performance of a critical decision and is used to shape, inform and support policy making. It connects planning action and disseminates concrete targets around resources, results and data (Conneely, 2010).

With rising or fluctuating input prices, severe and turbulent financial crises, and rapid technological changes, the economic environment has become very turbulent in recent years (Uyar, 2009). Under such circumstances, organisations have to renew themselves in all aspects; otherwise, they cannot keep pace with the developments and may fall behind competitors resulting in financial difficulty (Uyar, 2009). Developing the multi-year strategic plan and not revisiting the plan, while focusing on the in-year budget could only be detrimental for the long-run viability of companies' existence (Thomson, 2007).

Budgeting is a big component in any organisation and influences decisions that need to be made. It has become a strategic planning tool in assisting to implement the organisation's operations. The budget process is linked to strategy implementation according to Libby and Lindsay (2010) and plays a useful role in any organisation

(Libby and Lindsay, 2010). Budgets should be used for more than just a control mechanism or as an accounting tool. Organisations need to use more sophisticated management tools regularly rather than the traditional ones, or methods which are not adapting effectively to changing conditions (Uyar, 2009).

1.2.3 Budget – Planning, Process and Control

Historically, budget design was done at the lower levels of the organisation with line item pricing estimating production and then working its way up in a complex forecast of production and expenditure. This is a long time-consuming exercise reducing innovation, flexibility and adjustment to the changing circumstances (De With and Dijkman, 2008). It is important that business requirements are captured early and that they are as complete as possible. The business requirements form the basis for the requirements on the lower levels of operation (Lind Andersen, 2009). Organisations have commonly used budgets as an accounting tool for planning and control in their organisations (Uyar, 2009), as it is related to cost accounting, responsibility accounting, performance measurement and compensation (Covaleski *et al.*, 2003). The traditional view of a linear relationship between strategy, budgeting and implementation appears to be simplistic (Pilkington and Crowther, 2007); actual behaviour is more complex than theory suggests (Pilkington and Crowther, 2007).

Management starts the budgeting process in one of three ways:

- taking last year's budget and results as basis and updating it by adding inflation and projected revenue growth – traditional (Add On Budget);
- starting with a blank sheet – all new (Zero Based Budget);
- taking a blank sheet and force each unit to forecast revenue and profit and then assign expense rates to it (Performance Based Budget) (Engle, 2010).

The process traditionally started at the bottom moving up to management; but it has become evident that in strategy and in strategic planning it should be a top-down process starting at management level and involving the total workforce (Libby and

Lindsay, 2010) Budget and strategy are a top-down process with the executive giving direction and directive. Budget and budgeting have become more than just a control mechanism over the past few years. They are seen as functions for strategic planning and a method to implement or assist the strategy implementation. Business and academic sources continue to report problems and improvements on budgeting. Finding the right fit and optimum technique for a particular business require research, ongoing adaptation and innovative decision-making by the leadership (Miller and Galeaz, 2007). The effectiveness of the budgeting process can be considered to be connected to the level of environmental uncertainty and organisational behaviour (Pilkington and Crowther, 2007), and depending on the type of product, the market potential, competition, the impact of substitutes and market characteristics, may be similar throughout a particular region and different in another country (Lind Andersen, 2009).

1.2.4 Budget and Alignment

A good budget not only gives the organisation the ability to manage its costs in both the short and long term, but it also provides the agility needed to adjust spending in response to changes in the business environment (Shimamoto, 2012). The timely alignment of a budget towards opportunities and stressors in the market place provides a competitive advantage for organisations to execute and achieve their missions (Shimamoto, 2012). Budgets that are not aligned with strategy become irrelevant and pose a threat to productivity and profitability. Factors negatively impacting the budgetary processes and procedures are many and varied. Some process issues stem from executives who do not provide enough direction or support on the budgeting process or who feel they can change the budget parameters at will, giving a moving target as the budget is built (Orlando, 2009). Process issues often emerge at companies with no clear link between the budget and corporate strategy (Orlando, 2009). If one does not support the other, the process breaks down at the very top, regardless of the shape it will be in by the time it hits the lower ranks (Orlando, 2009). The ideal attributes of a budgeting process are speed and adaptability, direct communication, openness and flexibility (Pilkington and Crowther, 2007).

Critical things traditional budgets fail to measure are:

- customer value
- development of intellectual property
- speed to meet customer expectations
- employee development
- product/service quality

Aligning the budget to the external and internal circumstances for more reliability, organisations have innovated the practice of forecasting (usually quarterly) and review of operations, productivity and efficiency (monthly) (Engle, 2010). Intrinsic stationary markets will prefer percentage budgeting in a positive environment whereas constant budgeting can be beneficial in negative environments. In an evolving market, budgeting should be relatively flexible but in the stationary market, budget is a demanding task and should be focused on in the long term (Wang and Zhang, 2008).

1.2.5 Budget - Communication, Motivation and Performance

Budgets are useful for coordination, communication, and performance evaluation, as the whole workforce becomes involved and focused on goals and targets for the specific period. Whilst the budgetary process was historically a bottom-up communication process and a top-down coordination reporting system, dynamic leadership can develop this tool to reduce information asymmetries and uncertainties between the organisation and the business to business partners – providing the best blueprint for effective efficient communication (Greenberg and Greenberg, 2006). The budgeting process allows lower-level operating and financial managers and frontline employees to have their fingers on the pulse of the organisation (Greenberg and Greenberg, 2006).

Individual and team participation matter because it gives a highlighted shared responsibility in the setting of the budget and its outcomes. Participation varies:

- cognitive – flow of information from frontline employees
- affective – higher order needs

- contingency – personalities, attitudes and prejudices

- for interactive and collective performance measured where the purpose drive interest for positive outcomes (Lu, 2011). Collaboration, sharing information, developing closer understanding between departments result in a motivated workforce when communication is truthful, precise and geared to the level of the employee (Greenberg and Greenberg, 2006). Information technology in the form of Microsoft Excel, ERP and other budgetary programmes have put both advantages and stresses on the organisation because of limitations, difficulty, operational and time constraints. The most single complaint is the rigidity of spreadsheets and the inability to update data timeously (Miller and Galeaz, 2007).

An unrealistic budget (too strict or slack) can be the cause of gaming and earnings manipulation by managers, and redoing it time consuming and costly, often causing barriers and/or resistance to change by the employee (Libby and Lindsay, 2007). Traditional budgeting is counterproductive in today's fast-paced and highly competitive environment (Libby and Lindsay, 2007). Among the typical limitations of traditional budgets are that they quickly become outdated; the budgeting process is extremely time consuming, and thus highly wasteful; a process meant to provide insight into operational requirements ends up focusing exclusively on financial outputs, productivity and efficiency of the worker (Lamoreaux, 2011).

Dynamic leadership decision making becomes subservient to the budget rather than to the demand of customers and the long range financial well-being of the organisation (Uyar, 2009). Budget, strategy and strategic alignment have a great impact on the organisation. When the economy is growing, the external environment is changing. With these elements changing, the budget, strategy and strategic alignment should be changed and optimised within the company for the workforce's well being, the shareholders and all other stakeholders (Thomson, 2007). Should the economic climate start to down turn, managers have the task to evaluate the situation to retrench, re-engineer, seek other markets or change products to ensure the company's longevity timely. Survival and being relevant in the market place is essential (Lamoreaux, 2011).

This study will investigate whether or not senior management view budgets as a strategic enabler through assessing the strategic alignment. The elements that will be researched will endeavour to measure the contribution budget makes to the strategic alignment and the strategy of a company. These elements of strategic alignment might contribute to the optimising or improvement of budgeting in the changing environment, and will be assessed. The outcome will show whether the budget and budgeting process can be seen as a strategic enabler.

1.3 Research purpose and scope

Research will be conducted into senior management perceptions of how budgets are a strategic enabler in South African companies. The research will attempt to assess, evaluate and understand the views of senior management with regards to budgets and the use thereof. Internally budgeting can lead to better understanding of the work process, ethics of the business and focus of the company towards a competitive ever changing work and economic environment. Investigation will be done into their views of the different elements and how financial and non-financial professionals differ in the process, measurement, evaluation and possible adaptation of a budget.

It will also seek to identify whether budgets are a strategic enabler and how it has assisted the organisations in South Africa to position them locally and internationally where applicable. What is the influence of a budget on organisational behaviour that allow some companies to falter or reach targets whilst other aggressively gain local and international market share. Empirical measurement of these perceptions and views are impractical. The effectiveness of the methods and reasons for the elements of strategic alignment will be used as an alternative measurement. These elements will influence whether the budget can be seen as a strategic enabler.

Chapter 2 Literature Review

2.1 Beyond Budgeting

The principle of going beyond a budget, by making the budget redundant, is the latest trend due to all the perceived shortcomings and constraints the traditional budget experiences. The Beyond Budgeting Roundtable has established leadership principles and process principles.

Leadership principles are: focus on customer outcomes, organise as a network of lean accountable teams, enable everyone to act and think like a leader, give teams the freedom and capability to act, govern through a few clear values, goals and boundaries and finally promote open information for self-management (Kaarboe and Stensaker, 2009). The process principles are: set relative goals for continuous improvement, rewards should be shared, success based on relative performance, planning should be a continuous and inclusive process controls should be based on relative indicators and trends, resources should be available as needed and finally, coordinate interactions dynamically (Kaarboe and Stensaker, 2009).

The Beyond Budgeting management tool clearly stretches ongoing target performance and shows proactive, aggregated flexible planning with dynamic and continual resource allocation. The benefits can be a flexible holistic enterprise tightly coupled to strategy (Kaarboe and Stensaker, 2009). Further research would need to challenge aspects of decisional ambiguity, the link between formal responsibility and controllability, good time/ bad time freedom and constraints, liquidity, term focussing costing and possible new gaming behaviour (Kaarboe and Stensaker, 2009).

2.2 Organisation performance review

The assessment and evaluation of the budget outcomes or the fulfilment of the strategic plan is a crucial part in determining the success of a strategic financial plan (Conneely, 2010). Assessing the plan is important, but assessing the process in building the plan is equally important (Conneely, 2010). Management communication

and control systems are playing an increasing important role in corporate strategy and accountability (Barsky, 1999). Without the right controls in place, a realistic budget would not have provided the desired results (Lam, Carver, and Miller, 2008). Evaluating the assumptions, the indexes used, and the benchmark data, should be done annually to ensure that they remain appropriate as the plan moves forward (Conneely, 2010).

Firms that use budget preparation and internal accounting report that preparation is more accurate in forecasting performance (Cassar and Gibson, 2008). Budgets are used rigidly as a performance evaluation standard (Libby and Lindsay, 2007). Non-controllable variances are backed out before comparing actual expenses to the budget (Libby and Lindsay, 2007). Budgets are adjusted for actual values of key contingency variables, using a formula established at the beginning of the period (Libby and Lindsay, 2007). Evaluations are based on both meeting the budget standard and performance on other non financial targets (Libby and Lindsay, 2007). The evaluating managers consider performance relative to the budget standard along with other considerations incorporated subjectively into the evaluation (Libby and Lindsay, 2007). The most distinctive feature of the economic perspective on budgeting is the simultaneous reconciliation of the interest of owners/shareholders and employees (Covaleski *et al.*, 2003).

Budget outcomes are to a large extent determined by performance which has its roots in the health and discipline of the company through the budget execution (Hawkesworth, Emery, Wehner, and Saenge, 2009). Annual budgets are more suited to staff evaluation than rolling forecasts, as formal performance evaluation is most often conducted on an annual basis (Sivabalan, Booth, Malmi, and Brown, 2009). Hence, the settings of annual evaluation targets based on annual budgets are more aligned (Sivabalan *et al.*, 2009). Although evaluation budget reasons are expected to be less important than planning and control reasons, they will be more important for annual budgets than for rolling forecasts (Sivabalan *et al.*, 2009). In summary, it seems that many organisations use budgets as a basis for performance evaluation, but only a small percentage indicates that actual performance is compared rigidly to pre-established budget targets as the only basis for evaluating performance (Libby and Lindsay, 2007). A majority of IMA member respondents say the traditional budgeting

process is too time-consuming, is slow to detect problems, and is not reliable for measuring performance (Thomson, 2007).

2.2.1 Balanced Scorecard

Almost all companies conduct some regular performance analysis and reporting (Orlando, 2009). Targets and performance evaluations should be based on a balanced scorecard (Greenberg and Greenberg, 2006). The balanced scorecard approach must be consistent with the policies that have been established as a result of discussions with management (Rivera and Milani, 2011). The BSC designed uses a sequence of four perspectives that reflects firm value creation activities. The sequence is as follows: learning and growth perspective, internal/business process perspective, customer perspective, and finally financial perspective. Core outcome (performance) measures within each perspective are adopted as leading indicators for the core outcome measures in the next perspective (Huang, 2009).

Thomson (2007) suggests that the performance review with a balanced scorecard will assist in effective alignment for budgets and strategy if it is a regular process and a milestone-tracking process. A regular process can be part of operations reviews or results meetings to review the status of strategic initiatives and goals and to discuss interventions as necessary (for example to reallocate resources and consider new pricing plans) (Thomson, 2007). A milestone-tracking process manages the progress of strategic initiatives, to release business case funds when key milestones are achieved and to send out alerts if milestones are missed or are in danger of being missed (Thomson, 2007). With a balanced scorecard, the milestones and alerts will be easily recognised as an exception when designed for evaluating performance (Huang, 2009).

2.3 Incentives and gaming

Traditional budgets are said to be too unresponsive to today's competitive and turbulent environment and counterproductive in that they are usually affected by gaming and corporate politics (Neely, Bourne, and Adams, 2003). Budgetary gaming behaviours are a problem in organisations (Libby and Lindsay, 2010). The overall trend is to link compensation and the achievement of goals such as meeting budget

(Orlando, 2009). Tying budget targets to compensation contracts encourages managers to manipulate or game the budgeting system to increase the probability that they will receive positive performance evaluations and, therefore, any related compensation (Libby and Lindsay, 2007).

2.3.1 Gaming

This may lead to the following budgetary gaming actions (Uyar, 2009):

- Providing lowball estimates for sales and/or building fat into the budget for expenses to make the budget target easier to attain;
- Spending the entire budget at the end of the budgetary period so as not to lose the monetary capacity or budgetary entitlement when the next budget is set;
- Undertaking behaviour that leads to attaining the budget at the expense of long term goals;
- Requesting customers to take delivery of goods before the current period expires by offering discounts in order to make the budget;
- Holding back profits when you know that you are not going to make the budget;
- Holding back profits when you are going to exceed the target so it will be easier to make next year's budget.

The inward-looking short-term culture focusing on achieving budget figure rather than implementing business strategy on creating shareholder wealth over the medium and long term creates distortion on many levels (Neely *et al.*, 2003). The process incentivises gaming versus stretching for the best possible performance (Thomson, 2007). Too much emphasis is placed on internal performance versus external competitive benchmarks (Thomson, 2007). Agreements and contracts need to be prepared carefully to avoid incentives to create slack and untruthful reporting (Greenberg and Greenberg, 2006).

Management should ensure that financial planning targets align with the organisational strategy and value drivers (Miller and Galeaz, 2007). Without this connection, the budgeting and reporting process becomes a financial exercise instead of an effective management tool to drive strategic decisions (Miller and Galeaz, 2007). The first step to realising strategic alignment is to identify strategic business drivers and incorporate them into the budgeting and forecasting processes (Miller and Galeaz, 2007). These strategic business drivers should be tied to compensation contracts to incentivise the best possible performance (Libby and Lindsay, 2010). Lamoreaux (2011) found that traditional budgets, through ties to performance evaluation, incentivise negotiating the lowest acceptable target. This leaves growth potential on the table. Budgets can encourage inappropriate spending and discourage appropriate investment (Lamoreaux, 2011).

2.3.2 Slack

Slack is an understatement of expected performance, losing benefits to the organisation (Chow, Cooper, and Waller, 1988). It is the difference between resources provided by superiors and those needed for operations (Nikias, Schwartz, Spires, Wollscheid, and Young, 2010). Subordinates may create slack by, for example understating profitability or productivity. Slack can also be consumed in the form of perquisites, lower effort or even embezzlement (Nikias *et al.*, 2010).

Factors researched by (Chow *et al.*, 1988) and (Nikias *et al.*, 2010) show:

- When information asymmetry was absent, slack did not differ significantly from rewards;
- With a truth inducing scheme, (targets, parameters and control) slack was even lower;
- When the subordinate had control over the inputs, less slack was observed (Rankin, Schwartz, and Young, 2008);
- Face-to-face interaction between subordinate and superior has a empathy factor that could lead to slack;

- Time optimisation, not too much or too little, influences slack;
- Disaggregated sequential systems led to less slack than alternatives;
- Pecuniary rewards/penalties or bonuses have not been factored into the research;
- Requesting frequent updates may have control benefits by denying subordinates the opportunity to hide slack consumption.

Slack was also affected by performance capability with lower budget targets/ performance setting, resulting in slack behaviour because of poor or absent discipline in the organisation (Chow *et al.*, 1988).

2.4 Organisation collaboration and communication

2.4.1 Purpose and reason

When institutional leadership prioritises the strategic plan goals, faculty and staff will more likely feel empowered to invest of their own time in the action plans in order to meet the strategic goals (Bresciani, 2010). The best process in the world can fail without adequate communication (Orlando, 2009). It is recognised that budgets are not simply a forecasting device, but are used for many purposes such as to communicate objectives and motivate employees (Cassar and Gibson, 2008). New initiatives and goals will more readily be accepted if the employees' needs are first and foremost addressed (Greenberg and Greenberg, 2006). An accurate budget can affect them in two ways i.e. job security because of the financial health of the company, and monetary compensation (Orlando, 2009).

Explaining how the budget supports the achievement of corporate strategy and goals and how the company prospers if the budget is met, enables the manager to ascertain and evaluate employee participation (Orlando, 2009). The process is explained when the timetable, assumptions, and responsibilities are communicated through the different departments and levels of the workforce (Greenberg and Greenberg, 2006). This highlights the importance of the budgeting process and the commitment needed to

maximise input (Orlando, 2009). No one wants to spend time on a process that does not matter (Orlando, 2009). Sometimes this is handled best by showing the result if the budget is done incorrectly (Orlando, 2009). Management Control Systems in an open motivated organisation can even promote entrepreneurship and innovation (Kaarboe and Stensaker, 2009).

2.4.2 Integration

The budgeting process allows upper-level operating and financial managers to communicate information about the strategic and operational goals of the organisation (Greenberg and Greenberg, 2006). Alignment of the budget and budget process affords the opportunity to management to ensure that all are at the same point of departure to accomplish the company's mission and goals (Thomson, 2007).

The budgeting process also allows lower-level operating and financial managers and frontline employees to have their fingers on the pulse of the organisation (Greenberg and Greenberg, 2006). They should understand the business processes and procedures (Greenberg and Greenberg, 2006). Because they often have valuable information that can impact both short-term and long-term goals and priorities, they need to have an avenue for communicating both internal and external perspectives on their assigned tasks (Greenberg and Greenberg, 2006). The alignment among individual, team and the organisation would lead to impacts on the flow and inventory knowledge, with the consequent improvement of the corporate performance (De Carvalho Rezende and Nogueira, 2010). This communication is critical because information asymmetries exist among departments and levels within the organisation (Greenberg and Greenberg, 2006).

2.4.3 Critical role of Communication

Effective managers must show how budget decisions are linked to, and informed by the strategic plan (Varlotta, Jones, and Schuh, 2010). The budget has two purposes i.e. to motivate employees and facilitate planning (Steven, 2007). The communication process must start as early as possible and according to Varlotta, Jones, and Schuh,

(2010), in the educational setting, students need to be factual, consistent in delivery of the message with the necessary compassionate tone and unique needs of the group in mind. Disclosure of all facts is discretionary but transparency should be balanced with the executive top-down initiative. Negotiation skills are most important when dealing with sensitive information (Varlotta *et al.*, 2010).

Tools to enhance communication are by electronic mailing, public forums, discussion groups and training opportunities (Varlotta *et al.*, 2010). Communication also plays a critical role in describing and responding to the financial crisis at hand (turbulent and changing environment) (Varlotta *et al.*, 2010). Although management is clear that department heads are responsible for their budgets and any variances, it often seems that too little attention and inter departmental and group communication is paid to the budgeting process and a well-developed budget (Orlando, 2009). Sometimes this is due to other priorities at the time the budget is being created, but often times, it is a direct result of lack of involvement and/or understanding of the purpose of budgeting and the reason for going through this extensive exercise every time (Orlando, 2009). “Be inclusive and collaborative keeping departmental heads involved with their knowledge of their specific areas of influence and most important follow through” (Orlando, 2009).

2.4.4 Communication progress

Communicating the strategic plan and progress on strategic goal achievement is critical to ensure that all stakeholders are appropriately engaged in executing the plan successfully (Thomson, 2007). Comprehensive communication to all stakeholders, shareholders, investors, customers/members, audit committee, the board of directors, and, of course, all employees who have a stake in the success of their strategic plan is critical (Thomson, 2007). Continuous communication ensures that the strategic plan stays updated and becomes a motivational driver for dynamic revision and productivity (Thomson, 2007).

2.4.5 Communication involvement

Optimal budgeting and forecasting processes include regular interaction between finance, operations and business unit managers (Miller and Galeaz, 2007). This assists to integrate policies between multiple functional levels in the organisation, opening the communication network i.e. vertical top-down and horizontal peer to peer, and controls (McFadzean, Ezingard, and Birchall, 2011). The budget is the total and final product of an integrated holistic process that brings all disciplines, departments and levels of employees together towards the vision and goals (McFadzean *et al.*, 2011). Finance is uniquely positioned to leverage periodic budgeting and forecasting processes to drive a better understanding of the business and make planning activities part of the corporate culture (Miller and Galeaz, 2007). Strategic execution is considered as one of the major failures of executive teams when the accountant disconnects the finance as a reporting tool from the budget and insensitivity to changes in the future volume and mixes of forecasted products and services (Cokins, 2008). Effective and lasting financial planning changes must be driven by, and provide value to the business unit stakeholders (Miller and Galeaz, 2007).

2.5 Technology and systems alignment

Leading financial services companies continue to look for overall alignment of their corporate performance management (CPM) suite (Miller and Galeaz, 2007). An effective reporting system is the key to implementing a budget (Rivera and Milani, 2011). Frequent and accurate operation reports will permit managers to adhere to budget policies, monitor the company's liquidity position, and meet performance targets (Rivera and Milani, 2011). While chief financial officers (CFOs) addressed the bulk of their budgeting vitriol toward managers, inadequate technology was clearly a concern (Orlando, 2009).

2.5.1 Spreadsheets

There is a level of frustration specifically with budgeting in Excel spreadsheets (Orlando, 2009). Changes are very difficult in Excel, and it is impossible to drill down into data (Orlando, 2009). The process is very manual and FTEs/headcount very difficult to budget and manage (Orlando, 2009). Pulling together all the details in

summary, and detail reporting is cumbersome (Orlando, 2009). It is a time-consuming nature of budgeting in spreadsheets with regards to the frequency of errors, difficulties rolling up numbers, and the inability to create 'what if scenarios' (Orlando, 2009). Excel or other spreadsheet programs are excellent financial tools, but they are not necessarily optimised for budgeting (Orlando, 2009).

Jiang, Malek and El-Safty (2011) are in clear disagreement. According to Jiang, Malek and El-Safty (2011), Microsoft Excel and the solver add-in is a convenient, feasible, and affordable method for industry practitioners to develop models for budgeting. Although the model is a deterministic model, it provides optimal solutions, alternatives, and insights to the decision makers when progressively updated data is available (Jiang, Malek, and El-Safty, 2011). Unless you are a small company with a single user, Excel should be avoided as a forecasting tool due to the high likelihood for error and the inherent constraints of a desktop spreadsheet environment. It is recommended that companies concerned with systems expense look to cloud-based systems (Lamoreaux, 2011).

2.5.2 Designer reporting systems

A well-designed, functional, and comprehensive budgeting system is an essential management tool for a corporation (Rivera and Milani, 2011). Addressing the weaknesses of spreadsheet budgeting is the easiest challenge, and it is possibly even the most cost effective one compared to the staff hours required to solve the people aspects of budgeting (Orlando, 2009). A variety of good budgeting applications exist, geared for different sizes of companies and ranging from a few thousand dollars to hundreds of thousands (Orlando, 2009).

Software must be easy to use for those who must use it regularly (Orlando, 2009). The tools, people, and process are intertwined (Orlando, 2009). Without automated data population, financial planning resources spend significant time on lower-value data gathering, validation and reconciliation activities (Miller and Galeaz, 2007). Upgrading your budgeting technology will make your life easier in obvious ways, such as improved ability to roll up numbers, time savings, and increased accuracy through automation. In

addition, by improving your budgeting tools you increase your ability to invest managers in the process and to extract accurate and meaningful data from them (Orlando, 2009).

The integration of different departments in the company, where different performances and unit outputs take place will need to be addressed in a budget model and process in order to compare like with like to set production and achievement targets (Orlando, 2009). Although Excel is very functional and user-friendly when budgeting for a particular product or department, quality control issues arise when trying to achieve integration across multiple work units and rolling up totals to the organisational level (Thomson, 2007). A reason that makes this budgeting process cumbersome is using different spreadsheets in different departments to compile each part of the budget information into an understandable uniform report (Uyar, 2009). Software that is more sophisticated than spreadsheets often can be easier for novices to use and understand (Orlando, 2009).

2.5.3 Enterprise Resource Planning

This integrated corporate performance management (CPM) view includes holistic functionality for financial planning, consolidation and reporting and business analytics (Miller and Galeaz, 2007). Meanwhile, vendors of best-of-breed planning systems and enterprise resource planning (ERP) software continue to improve their products' budgeting and forecasting functionalities (Miller and Galeaz, 2007). As these products mature, they incorporate stronger support for driver-based budgeting and better enable the move to higher-value activities (Miller and Galeaz, 2007). Spreadsheet-based budgeting and planning processes are manually intensive, error prone and have longer cycle times (Miller and Galeaz, 2007).

Best practice companies have systematically eliminated spreadsheet based modelling and reporting as they migrate toward new technology solutions (Miller and Galeaz, 2007). Reporting and documentation must be easy, self-contained, and able to be done with minimal assistance from finance (Orlando, 2009). Leading companies look for ways to pre-populate internal and external data sources that feed into the budgeting

and forecasting process (Miller and Galeaz, 2007). A common data model, hierarchies and a chart of accounts will allow for more efficient budgeting and forecasting processes. This will assist in a more effective strategic alignment through standardisation, simplification and supporting rapid changes prevalent in today's business climate (Miller and Galeaz, 2007).

2.6 Driver based concepts

2.6.1 Rationale

The annual planning process involves developing a budget that covers the first year of the multi-year strategic plan - but at a lower level of detail (e.g. expense line items by department) (Thomson, 2007). Budgeting and forecasting processes, as well as systems and data models, must be capable of supporting the rapid changes (Miller and Galeaz, 2007). They must also deliver precision while remaining flexible enough to accommodate rapid changes in organisational structures due to realignments, divestitures and acquisitions (Miller and Galeaz, 2007).

Many companies track their budgets at the line-item level instead of aggregating the data-adding complexity and cost to the process (Miller and Galeaz, 2007). Management accountants also need to help forecast at macro and micro levels via financial modelling (Thomson, 2007). Standard models, tools and processes allow for greater agility and information sharing (Miller and Galeaz, 2007).

2.6.2 Financial modelling

Financial modelling is a critical element of determining key measures of success over the multi-year planning horizon (Thomson, 2007). A macro financial model is often the first step (Thomson, 2007). Here the modeller collects all available internal data (e.g. department spend history) and external benchmarks (e.g. competitor growth rates) and creates a macro financial projection over the planning period (Thomson, 2007). This view may be limited to the key financial and performance indicators consistent with the strategic goals, such as revenue, operating expense, margin, and customers (Thomson, 2007).

Best practice companies limit the number of line items in their annual budget submissions (Miller and Galeaz, 2007). Some companies create the budget only after the broader strategic direction and goals have been set (Thomson, 2007). This generates a context and high-level screen for what can or cannot be included in the more detailed budget (Thomson, 2007). The result is an effective overview of operations where micro-managing is eliminated, and any fallout in production will be highlighted in an exception report that will influence the adjustment to budget (Orlando, 2009).

Experience shows that top companies are migrating toward driver-based budgeting and forecasting in an effort to align the processes around measurement of value drivers (Miller and Galeaz, 2007). These companies focus on the critical drivers that affect their performance as opposed to hundreds of detailed line items (Miller and Galeaz, 2007). Driver-based planning also assists in the cause-and-effect analysis required for proactive decision support and for strategic alignment (Miller and Galeaz, 2007).

2.7 Rolling forecasts

2.7.1 Forecast Modelling – a perspective

A rolling forecast is usually produced monthly or quarterly, and enables organisations to periodically adjust its expected numbers within an annual period to reflect the current market realities companies faced (Sivabalan *et al.*, 2009). More than three-quarters of the executives surveyed, reforecast their budgets to help their companies adjust to marketplace fluctuations and changes, and about one-third use rolling forecasts to better manage the business (Orlando, 2009). Companies that forecast beyond the end of their fiscal years have more streamlined annual budget cycles (Miller and Galeaz, 2007).

Realistic rolling forecasts look to 15 months or more into the future (Uyar, 2009). Rolling forecasts typically go out five quarters. It becomes irrelevant when employees find identification and commitment to the future distant plan; it then becomes a mathematical exercise (Lamoreaux, 2011). Companies continue to pilot the concept of

rolling forecasts and their continuous planning capabilities to align the annual budget process (Miller and Galeaz, 2007).

Rolling outlooks should be developed at a reasonable level of detail combined with an aligned incentive scheme (Thomson, 2007). This forces the thinking to beyond the in-year budget which the time horizon naturally shrinks as the fiscal year approaches its year end (a six-quarter rolling outlook, for example, continually forecasts another six quarters ahead for key performance measures such as revenue) (Thomson, 2007). Rolling forecasts are argued by practitioners to be a substitute for the annual budget (Sivabalan *et al.*, 2009).

Rolling forecasts involve more frequent forecasting by companies in order to generate more accurate financial predictions; therefore, they overcome many of the problems claimed for annual budgets, which have been the focus of critique to date (Sivabalan *et al.*, 2009). Similar to the argument above, the use of improved budgeting practices may explain why budgeting persists (Sivabalan *et al.*, 2009). Rolling forecasts seem to be used to complement, not substitute the annual budget. In addition, annual budgets and rolling forecasts are used for nearly identical reasons (Sivabalan *et al.*, 2009).

2.7.2 Benefits and Constraints

Rolling forecasts can negatively affect performance evaluation, because evaluating individuals over shorter periods provides much higher administrative workloads for management, and the performance evaluation process becomes more cumbersome (Lamoreaux, 2011). Because budgets are prone to change, it is difficult to provide staff with a performance evaluation target using rolling forecasts. The target will continually change as budgets change. Rolling forecasts reduce goal congruence, as they frequently shift budget targets for staff, when used for evaluation (Sivabalan *et al.*, 2009). However, as noted above, rolling forecasts can also cause goal congruence problems for employees, as targets frequently change with each new forecast (Sivabalan *et al.*, 2009). This makes it increasingly difficult for employees to know what performance targets to aim for, and the use of rolling forecasts for performance evaluation can be difficult (Sivabalan *et al.*, 2009).

As a result of more accurate and frequent predictions, rolling forecasts facilitate organisational learning and provide managers with more confidence in the budget numbers that are used for short-term operational planning (Sivabalan *et al.*, 2009). If rolling forecasts are introduced primarily for ensuring better quality short-term predictions, and the annual budget is less capable of producing accurate predictions, then planning and control reasons should be more important for rolling forecasts than for annual budgets (Sivabalan *et al.*, 2009).

The purpose of forecasting is to get the most realistic picture possible of the future for as far forward as a company's management can see. If you have a short-term operational plan and a long-term strategic plan for what you want to become, the business forecast focuses on the in-between part, on how to move from where I am to where I want to be (Lamoreaux, 2011). The business forecast should link short-term operational plans to moving toward medium-term strategic goals (Lamoreaux, 2011).

Strategy is a long-term vision and rolling forecasts will be able to assist in reaching these visions (Thomson, 2007). With large corporations, vision setting is a long-term operation and to be realistic, scenario planning and budgeting should not only be specific short term but estimated long term with different strategies and outcomes taking the best and worst economic conditions and climate into consideration (Thomson, 2007).

2.8 Rapid forecasts and cycle times

2.8.1 Time indicators

Many of the processes and strategies for budgets are likely to be longstanding ones that have been relatively immune to revisions or modifications (Varlotta *et al.*, 2010). While traditional strategies may have worked during routine times of gradual growth or decline, they are likely to be ill suited to address budget cycles that unfold in drastically declining economies (Varlotta *et al.*, 2010). By forecasting over short periods, the rolling forecast reduces the time interval between planning and business reality (Sivabalan *et al.*, 2009). This should make organisations more competitive and

responsive to change, especially when economic conditions rapidly change (Sivabalan *et al.*, 2009).

Budgets are no longer a relatively quick exercise performed once a year, the budget has become a strategic business plan in itself, analysed and updated regularly throughout the year in the form of monthly forecasts and sliced and diced to allow various views into the company's operations, performance, and future direction (Orlando, 2009). One of the most prominent weaknesses of traditional budgeting is the time consumed by budget processes (Uyar, 2009). Some estimates suggest that planning and budgeting processes use up to 20 percent of all management time and 25,000 person days are used per billion dollars of sales on planning and budgeting (Neely *et al.*, 2003).

According to a survey of CFOs and finance executives conducted by Centage Corporation and the Institute of Management and Administration (IOMA), most companies devote four to eight weeks for an annual budgeting cycle (Uyar, 2009). The average cycle time for completing the annual budget process is nearly four months (Thomson, 2007). While there is not necessarily an official best practice benchmark, ideally this average cycle time would be closer to one month, depending on an organisation's scale and scope (Thomson, 2007).

2.8.2 Agility and Efficiency

Time spent on budgeting is disputed by Libby and Lindsay (2010) being less than what the critics suggest and does not appear excessive to their research. According to Miller and Galeaz (2007) leading companies can generate a new financial forecast in fewer than 24 hours. This rapid forecasting ability is the result of a combination of factors, including automated data population, high use of driver concepts and the fact that forecasts are updated - not rebuilt - each period (Miller and Galeaz, 2007). Forecasts that focus on key performance indicators and line items can be produced more quickly, allowing time for value added analysis and insight from finance (Miller and Galeaz, 2007). With rapid forecasting, the budget will be an effective strategic enabler (Miller and Galeaz, 2007).

2.9 Probable benefits of strategic budgeting

Companies that take full advantage of strategic budgeting and forecasting processes will realise the following benefits (Miller and Galeaz, 2007):

- Budgeting and forecasting processes integrate strategic planning and day-to-day operations;
- Standardised data collection and consolidation result in a shorter budget cycle and improved forecasting accuracy;
- Rolling-forecast concepts extend forecasting beyond year-end, reducing the dependency on manufactured deadlines that are not aligned with a constantly changing marketplace;
- A focus shift to value-added initiatives such as target setting, analysis and ongoing measurement;
- Increased collaboration between finance and operations enhancing planning, leading, communication and control;
- Budgeting and forecasting processes that are regarded by the organisation as opportunities to create value;
- A methodology that provides a flexible approach to changing business processes, technology, organisational structure and data.

While it will be a journey, the transformation of budgeting and forecasting to a strategic lever is achievable (Miller and Galeaz, 2007). The impact will be significant as the finance function begins to play a leading role in an organisation's strategic direction by providing a means to rapidly assess and adapt to changing markets (Miller and Galeaz, 2007).

Chapter 3 Research Propositions

3.1 Research propositions flowing from literature review

From the literature it is clear that there are currently concerns in the budgeting process, however management sees budgeting as an integral part of strategy and planning for their organisations (Libby and Lindsay, 2007). Companies have started applying best practices and beyond budgeting to their processes. This improves the organisation to keep up with changing environments and it assists them to improve the alignment between budgets and strategies. The research will investigate whether or not financial and non-financial professionals believe that budgets are a strategic enabler through the following propositions:

Proposition 1: Organisations should use balanced scorecards on a regular performance review process.

Proposition 2: Incentives should be linked to strategic business drivers in an organisation to disable gaming behaviour.

Proposition 3: The organisation ought to have effective communication and collaboration at all levels and understanding of the budget process.

Proposition 4: An effective reporting technology that is user-friendly and functional should be implemented in the organisation and should assist in the budgeting process.

Proposition 5: Organisations should be using driver based budgeting and forecasting, and should focus on critical drivers.

Proposition 6: Rolling forecasts should be implemented at the organisation and it should have a five-quarter future view.

Proposition 7: The cycle time for budgets must be one month and for forecasting, a day, in the organisation.

Chapter 4 Research Methodology

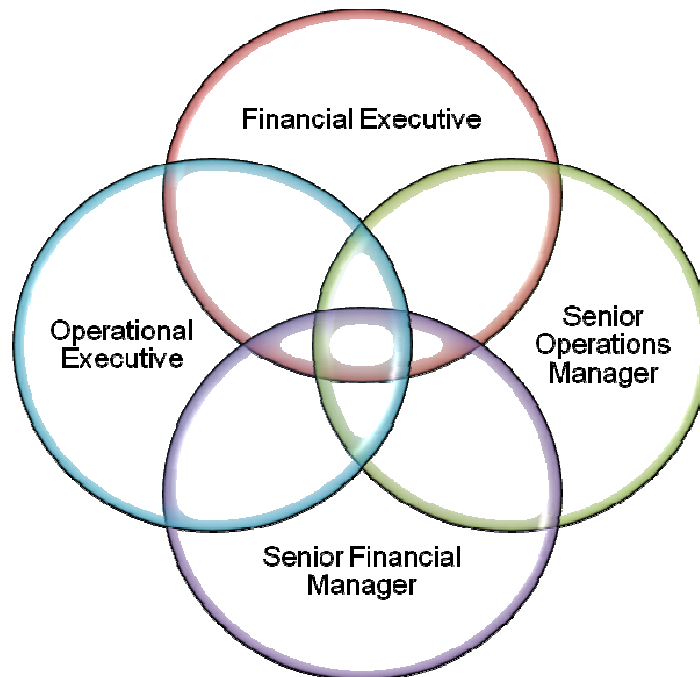
4.1 Methodology

Surveys that targeted Financial Professionals involved in budgeting were electronically conducted by Libby and Lindsay (2007) and Libby and Lindsay (2010). A short-coming in the previous research was that investigators were limited to finance practitioners and have excluded non-financial participants in the process. This led to the question as to whether or not all problems from aligning strategies through budgets have been identified.

This research will investigate the experiences and views of non-financial professionals in addition to those of financial professionals. Additional to the views of the financial and non-financial professionals, the views will then be classified further on the level of the organisation that the participant relates to. This will give an extra dimension to the views of the sample. In order to minimise the risk of a finance-view bias in the research, qualitative research, in the form of semi-structured expert interviews (Remenyi and Williams, 1998) will be conducted. An electronically administered survey might miss the unique insights of the different professionals as it is a static measurement.

To ensure consistency, the author will conduct all the interviews personally. The interviews will allow the participants to elaborate on the research proposals. The diagram 4.1 below indicates the multiple levels of interaction and communication that are possible during the budgeting process, each of which could shape an individual's perception of the process.

Diagram 4.1 - Multiple level interaction and communication



The key interview purpose is to solicit the views and experiences of the interviewee in a structured and flexible method, thus an interview prompt sheet will be utilised. The prompt sheet will assist in gaining a deeper understanding or a greater clarity of the interviewee response (Remenyi and Williams, 1998). Clarity and reliability of the response from the interviewee will be interpreted using the soundboard technique to minimise misunderstanding and/or misrepresentation of the information (refer to Appendix 1 for a copy of the interview guide). The interview guide contains prompts on that which is categorised according to the propositions.

Collecting the relevant data, interviews will be focused on experienced and expert professionals in an organisation. Experienced and expert professionals in this study will be defined as professionals with more than five years working experience, more than two years in their current role with a relevant academic qualification, such as: Accounting, Finance or Operations. This information will be gathered before the interview commences. This will assist in the classification of the participants' level in the organisation.

To ensure frank responses, the respondent will be assured of anonymity and confidentiality to themselves and their organisation. This will be achieved by generating a random identification number for each respondent. Any reference to the respondent or the organisation in the interview will be removed from the transcripts of the interviews and the electronic notes that will be taken during the interview.

Multiple interviews will be conducted at different organisations. The aim is to gather different insights from non-financial and financial professionals on different levels of the organisation. To limit the bias of the researcher the findings and research results of the interviews will be cross validated between the company's respondents. This will ensure that no single respondent's view will distort the overall results. Secondary data is not available to perform secondary data analysis to support the research findings.

4.2 Unit of Analysis / Population and Sampling

The unit of analysis for this research is senior managers or executives who are currently employed by South African based organisations. The population is defined as professionals who have been working for more than two years in the specific position for this major organisation based in South Africa. The focus of the study is to interview multiple senior managers or executives in a company, which will lead to the sample being designed in terms of suitable organisations. A primary sample pool of eight suitable organisations is identified by using Johannesburg Stock Exchange (JSE) listings. These organisations contain well known brands. This method of sampling is a purposive sampling (Remenyi and Williams, 1998).

The South African organisations in Table 4-1 (in alphabetical order) were approached and requested to participate in this study. As discussed, respondent anonymity and confidentiality was assured to the respondent and their organisation; this ensured frank responses. The participants that opted for anonymity would not be named in the tables, but a generic position of the person would be generated.

Table 4-1 - Targeted companies and senior management

| Company | Financial | Non-Financial |
|--|---|--|
| Aveng Limited | Financial Manager | Corne Claassen (Commercial Manager) |
| Investec Limited | Financial Manager | Fanie Fourie (Information Technology Manager) |
| Kumba Iron Ore Limited | Abel Pienaar (Financial Manager) | Operations Manager |
| Liberty Holdings Limited | Financial manager | Operations Manager |
| Murray and Roberts Holdings Limited | Financial manager | Operations Manager |
| Omnia Group (Pty) Limited | Noel Fitz-Gibbon (Chief Financial Officer) | Rod Humphris (Chief Executive Officer) |
| Stratcorp Limited | Henk Engelbrecht (Financial Director) | Operations Manager |
| Tsogo Sun Holdings Limited | Rob Huddy (Chief Financial Executive) | Marcel Von Aulock (Chief Executive Officer) |

These eight organisations will result in sixteen interviews with senior managers or executives. Sixteen is believed to be adequate to gain convergence in the research findings, even though this is not a statistically representative sample. The senior managers or executives will be targeted for the interviews, due to limitations of accessibility and time constraints.

The organisations that were identified and mentioned in table 4-1, agreed to participate within the research timeline constraints and research process. No company declined or rejected the request to participate in the research study. In each of these participating organisations, a convenience sample was used with a financial and non-financial participant involved in the budgeting process. These interviews were directed either to

a senior manager or an executive. In addition, the experience criteria listed above was used to select the participants within the organisation. A total of 16 interviews were conducted, this approach was applied to all the organisations in the sample.

4.3 Procedure / Data collection / Instrument

The contact details of the financial manager or the financial executive was obtained in order to approach the organisation. The financial manager or financial executive of each targeted company was approached (either directly or through their secretaries), to confirm their willingness to participate in this study. The research methodology and research objectives were conveyed to these individuals.

A written request was submitted to the organisations for participation in this study, identifying which individuals were selected for the study. The request clearly expressed that the research would not focus on any confidential company information, but only on the insights, experiences and views of the respondents that would be participating in the study.

Upon receiving written consent to the request, appointments were made for the different interviews with the individuals at a convenient date and venue. The dates and the venue were chosen by the interviewees. The aims of the research were discussed in the interview, as well as the methodology. The methodology that was used protected their confidentiality and no confidential information was discussed. The research consent form was also given. It was also conveyed that the respondent had the right to withdraw at any time.

All the interviews took place on a one-on-one basis. The interview was only scheduled for an hour each. The interview was based on the prompt sheet, and did commence with a general question to invite the interviewee to share their insights and experience. The function of the interviewer was to provide clarity on the content of the questions and ask further probing questions with the prompt sheet as assistance, in order to gain

sufficient understanding of the interviewee's response. A final question was used to conclude the interview.

The prompt sheet consisted of an opening question, prompts and a concluding question. All of the questions that were asked or prompted were open ended. This assisted in gathering more information to do a data analysis. All the interviews were then recorded with either a voice recorder or through an application on a laptop. These recordings were translated into electronic transcripts (a written record for each interview) through a computer aided qualitative data analysis (Remenyi and Williams, 1998) or through electronic transcript consultants. In all interviews, written notes were taken during the interview. Together with the electronic transcripts, both methods aided in the analysis of the data.

4.4 Data Analysis

The written records (electronic transcripts) of all the interviews will be analysed. The data will be grouped according to the propositions. A categorisation matrix will be developed to assist in the context analysis (Elo and Kyngäs, 2008). In this categorisation matrix, each interview has a unique identification number which will be placed in the matrix as a primary field. A secondary field will then be the proposition and the data field will be the information that was gathered in the interview. After a categorisation matrix has been developed, all the data will be reviewed for content and coded for correspondence with or exemplification of the identified categories (Elo and Kyngäs, 2008). The different categories that the data field will present will be labelled to find the commonalities. Data will be analysed with the following methods to gain more insight into this study:

- For each proposition, a content analysis will be executed.
- Content analysis will also be grouped in a financial and a non-financial category.
- A further analysis will be prepared to investigate the differences and commonalities between the companies through the assistance of the categorization matrix that has been created.

- Suggestions for future improvements and their insights will be analysed, grouped into common themes and will be used to develop recommendations for strategic alignment through budgeting as a tool for the future.

4.5 Potential Research Limitations

There were different limitations to this study. This research did have the following limitations:

- Only a few companies were selected for the interviews (limited sample).
- The research was only conducted with these companies; results on non-interviewed companies might be different.
- Interviewer bias was a possibility. With conducting a qualitative research study and gathering data by the researcher himself or herself, self-reported data was limited to the fact that it rarely can be independently verified. The interpretation that the researcher had, might be different from the next researcher.

Chapter 5 Results

Data were analysed using a categorisation matrix (Elo and Kyngäs, 2008). The information that was collected from the participants for this study during the interviews, was transcribed from the recordings by a transcription service. All the notes that were taken in the interviews were also placed electronically. The key propositions were used as categories for the questions on the prompt guide. To facilitate linking the results of the research to the propositions, the data were gathered, summarised and categorised according to the propositions in an excel spreadsheet by the proposition category.

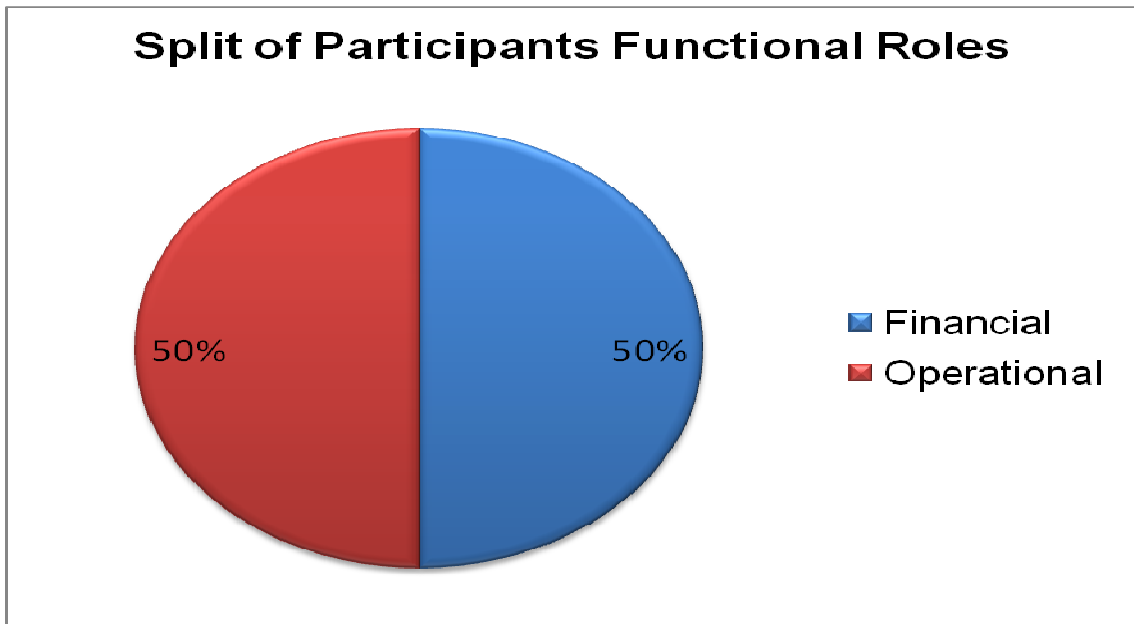
These interviews were designed to gain the participants views with minimal guidance from the interviewer. Where the participant already supplied the answer to one of the other questions of the interview guide, that specific question was not posed to the participant later in the interview. In these instances, the data analysis, classified the responses with the question it related to, in spite of the answers having been in another question.

Unless specified otherwise, percentages refer to the proportion of the total number of sample respondents and not the number of responses. In the comparison of responses at different levels of management or different functional groupings, unless otherwise specified, percentages refer to the number of total sample respondents in each of the groupings and not the number of respondents.

5.1 Composition of the participants' sample

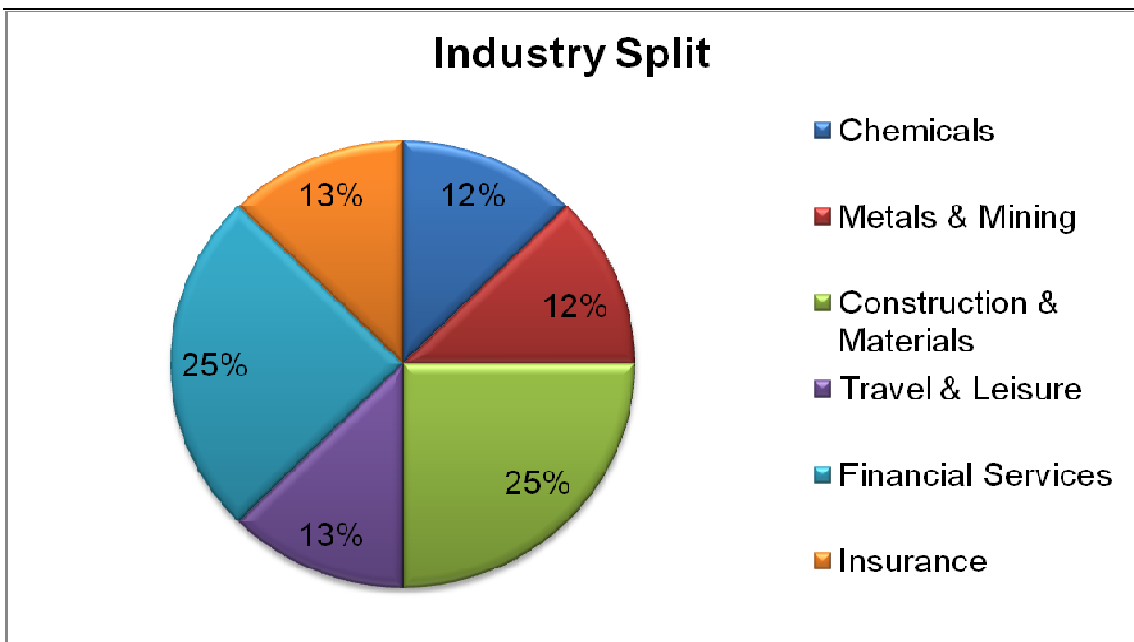
The final sample met the methodology requirements and contained an even number, i.e. eight of each, from the operations and the financial departments of the organisations that were involved in the budgeting process as reflected in chart 5-1.

Chart 5-2 - Split of participants Functional Roles



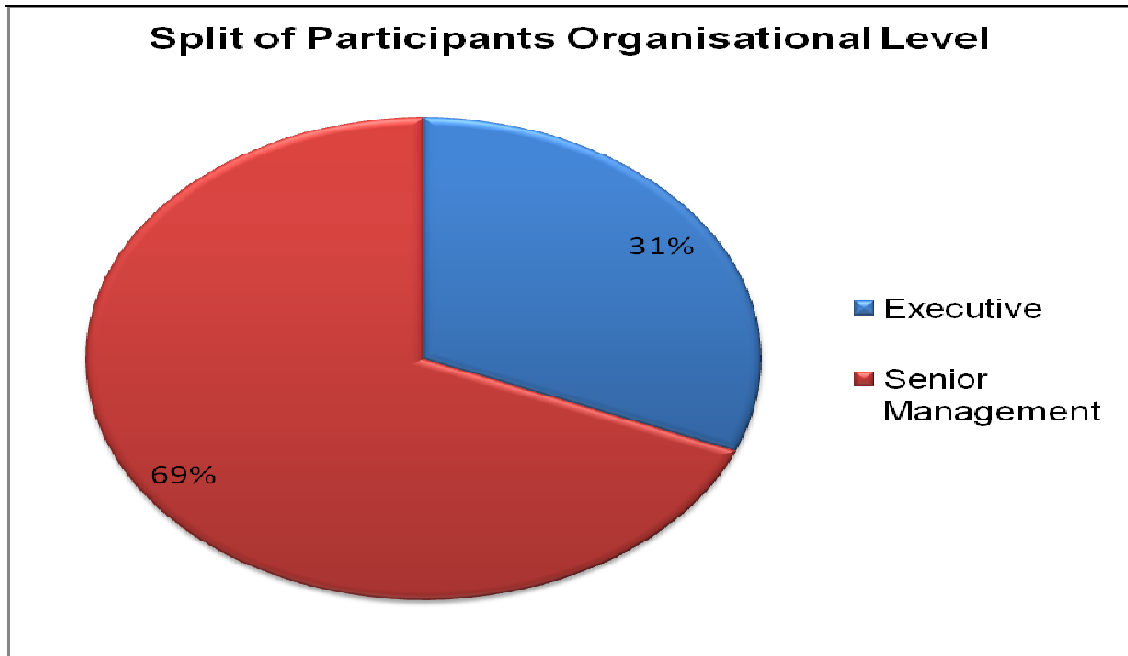
All these participants have been with their companies for more than two years in their current positions either with the holding group or within a main division of the holding company. All of the companies are listed on the stock exchange and have well known brands. The split of the industries in which the companies are categorised by the stock exchange can be seen in chart 5-2.

Chart 5-3 - Industry Split



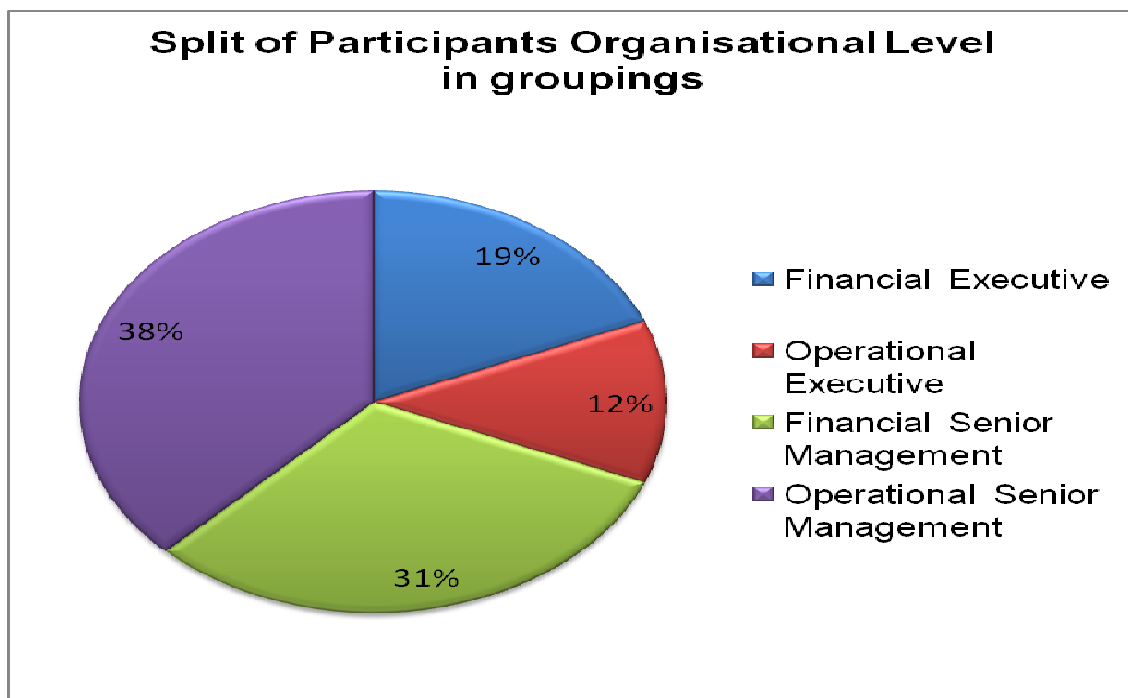
The participants were also classified on different levels. The split of the levels are indicated in chart 5-3.

Chart 5-4 - Organisation level split



Participants' levels were further analysed into the different participants' groupings.

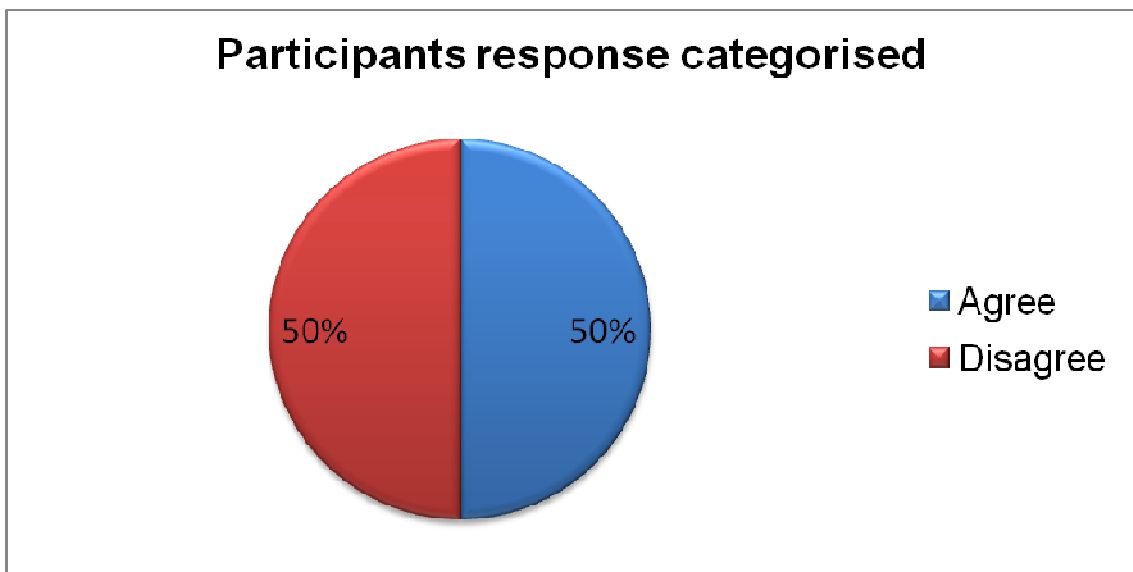
Chart 5-5 - Participants Organisational Level in groupings



5.2 Results proposition 1: Organisations should use balanced scorecards on a regular performance review process

In order to assess whether organisations should be using balanced scorecards, participants were asked whether their organisations have been using a balanced scorecard on a regular performance review process. All participants were aware of what a balanced scorecard was and the purpose served in an organisation. A detailed explanation of a balanced scorecard was given if the participant seemed unsure or where the participant required clarity.

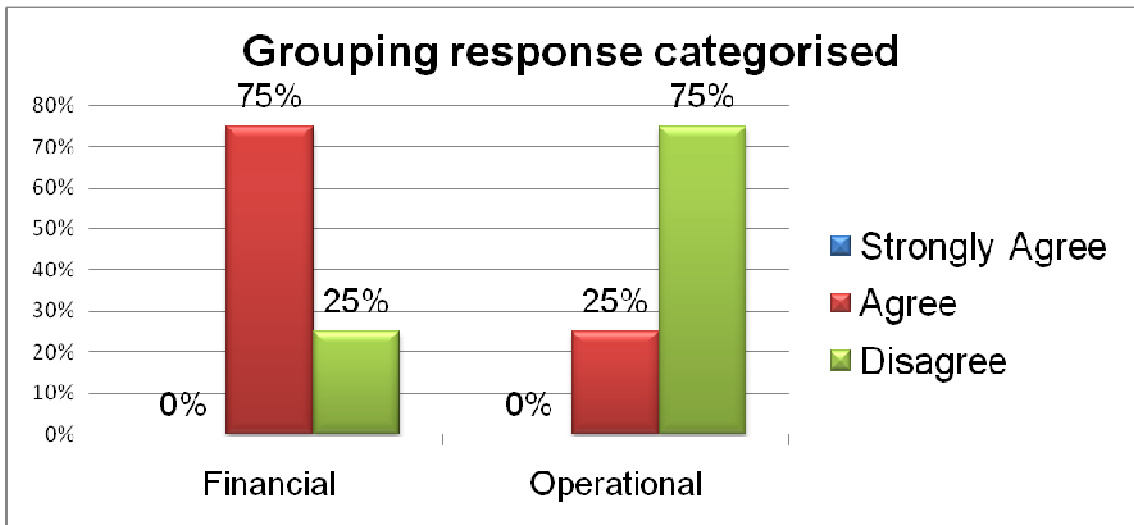
Chart 5-6 - Proposition 1: Sample Response



Half of the participants agreed that the organisation should be using scorecards on a regular performance review process. These participants were also using a balanced scorecard within their companies, where the other half of the participants disagreed on this question in their interview and commented that their companies did not use balanced scorecards. No participant strongly agreed, nor strongly disagreed to the question proposed from the prompt sheet during the interview.

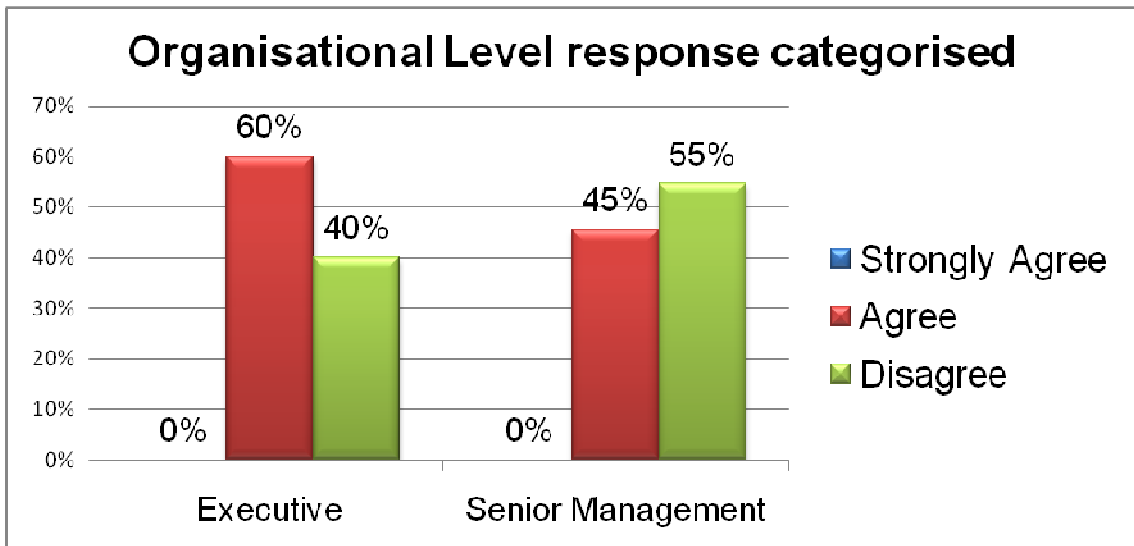
A similar result occurred within the grouping of financial participants. The following chart 5-6 indicates that the majority of the financial participants agreed and the minority of the participants disagreed. This is an opposite view to the non-financial participants.

Chart 5-7 - Proposition 1: Grouping Response



With regards to the organisational level responses, the relationship between who agreed and disagreed differs from the entire sample. More executives agreed with the proposition. The senior management level was the opposite from the executives' level. More senior managers disagreed that the balanced scorecard should be used on a regular performance review process.

Chart 5-8 - Proposition 1: Organisational Level Response

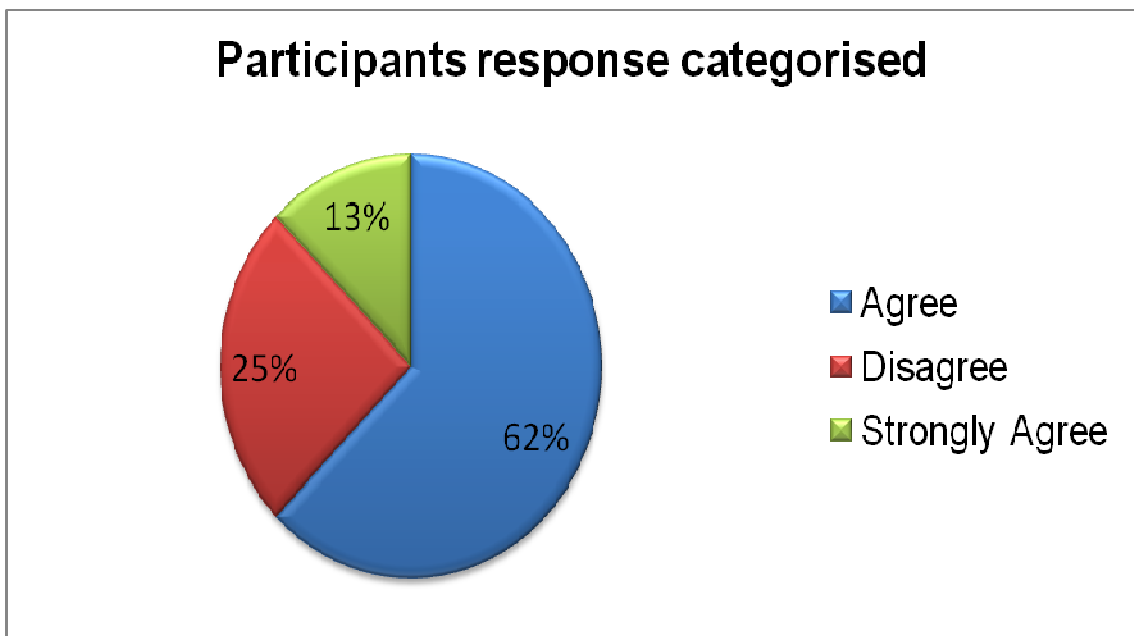


5.3 Results proposition 2: Incentives should be linked to strategic business drivers in an organisation to disable gaming behaviour

In response to the concerns raised in the literature review, the respondents were asked whether any incentives were linked to budget performance or to business strategy drivers. The respondents that disagreed with the propositions, were employees of a company that did incentives on the budget performance and not on other measures. The respondents that agreed, were within the companies that did incentives on the strategic drivers, but also took into account a small portion of the budget performance. The respondents that strongly agreed, indicated that all the incentives were linked only to the strategic drivers of a company.

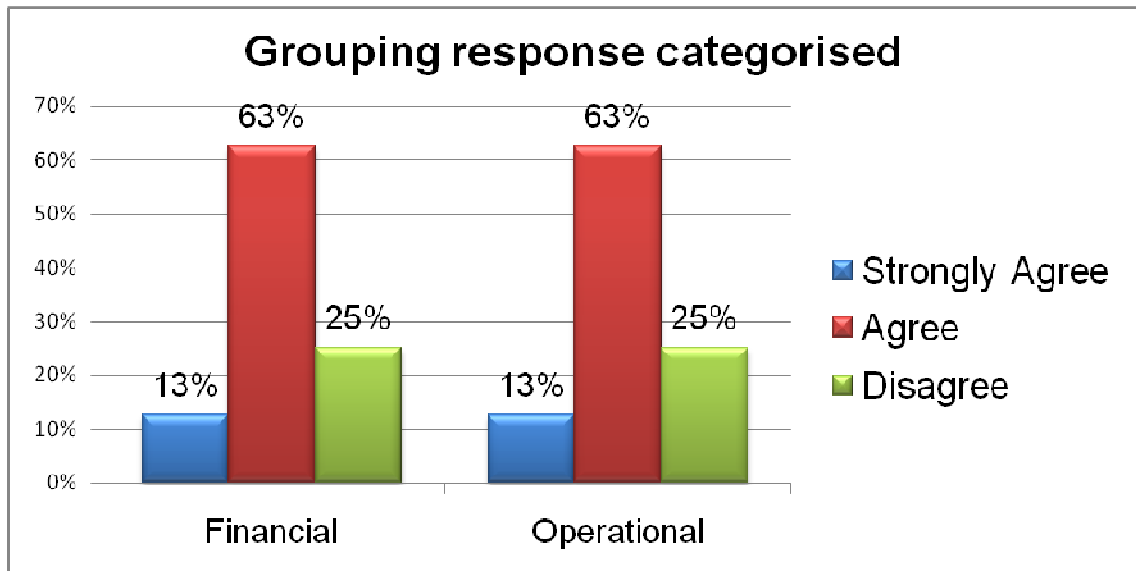
The greater number of the total respondents agreed that incentives should be linked to strategic business drivers in an organisation and that this would disable any gaming behaviour. The respondents that strongly agreed were in the minority of the total sample of the respondents.

Chart 5-9 - Proposition 2: Sample Response



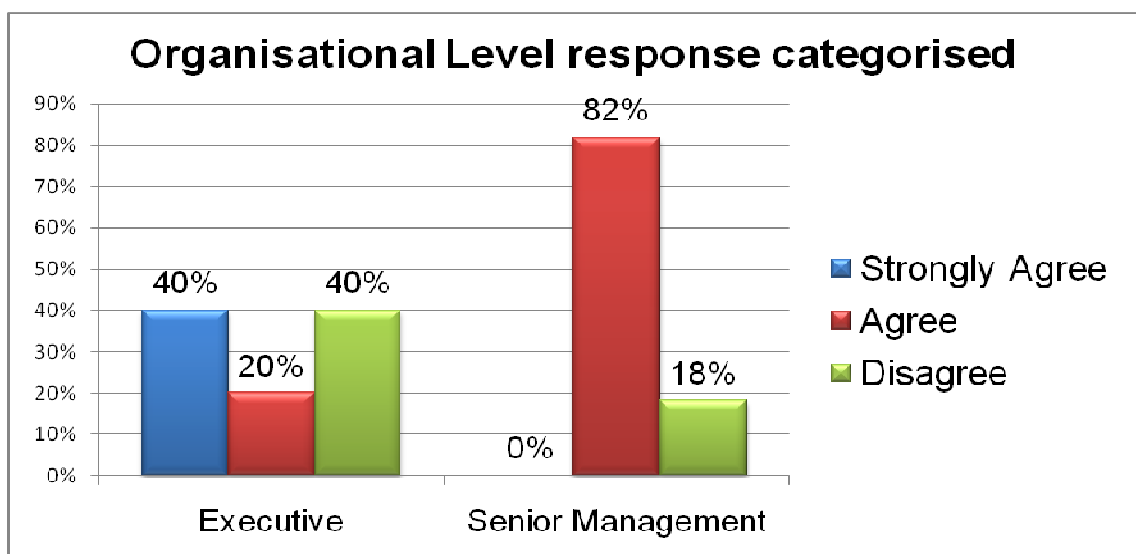
The grouping response was similar to the sample response in chart 5-8. The financial and non-financial respondents displayed an exact similar relationship between their responses.

Chart 5-10 - Proposition 2: Grouping Response



The senior management level on the organisational level responses was also similar to the previous two charts, where the executive level was different. The executive level indicated that the weight between the respondents that strongly agreed and disagreed were the same and that the respondents that agreed were in the minority of this group.

Chart 5-11 - Proposition 2: Organisational Level Response

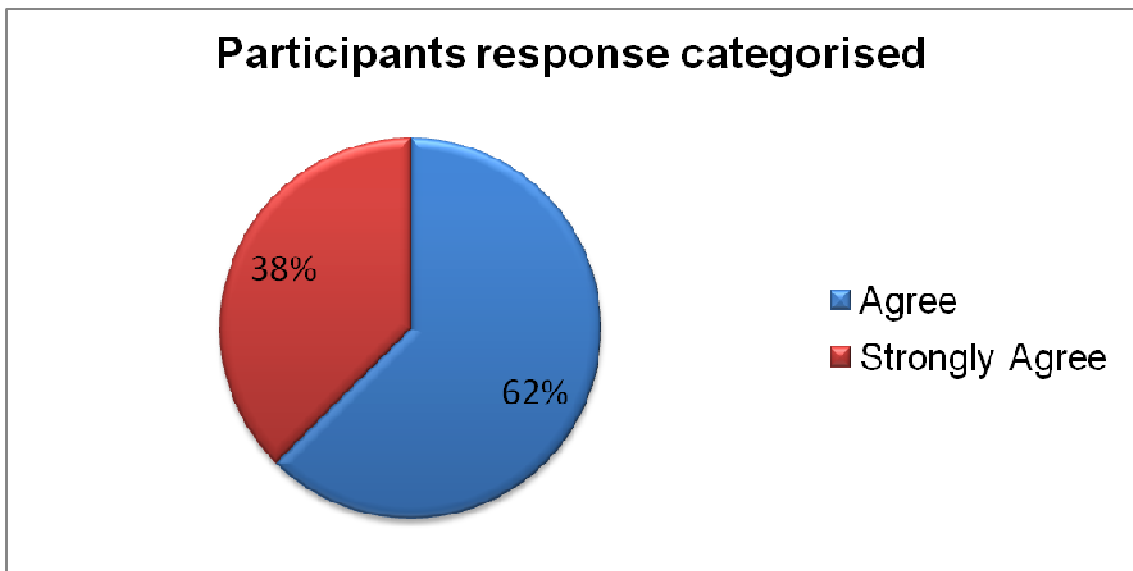


5.4 Results proposition 3: The organisation ought to have effective communication processes and collaboration on all levels and an understanding of the budget process

All the respondents agreed that communication and collaboration at all levels and understanding of the budget process should be effective in any organisation. All the respondents believed that there were communication and collaboration either through electronic mails, meetings, discussions or presentations. All the respondents were prompt in explaining the entire budget process with regards to communication and collaboration.

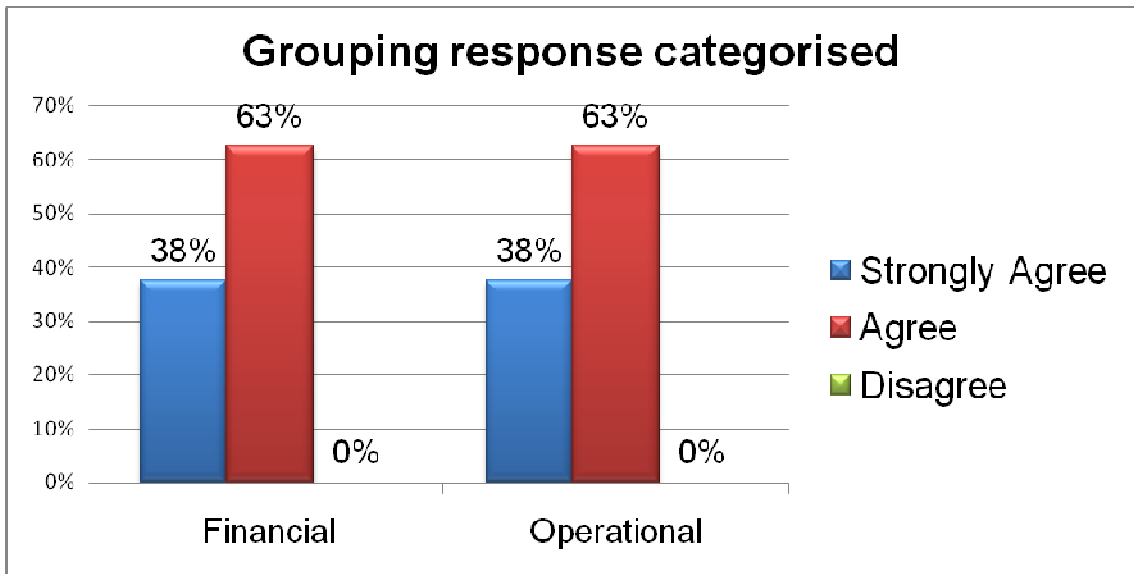
The greater percentage of responses agreed whilst the strongly agreed responses were the minority as highlighted in chart 5-11. The strongly agreed responses indicated that this was one of the critical factors in any budget process and ought to be effective to have the budget process working optimally with a comprehensive understanding of the budget process to be effective on all levels. A responded stated that “without any clear and effective communication it would not be worthwhile to do anything”.

Chart 5-12 - Proposition 3: Sample Response



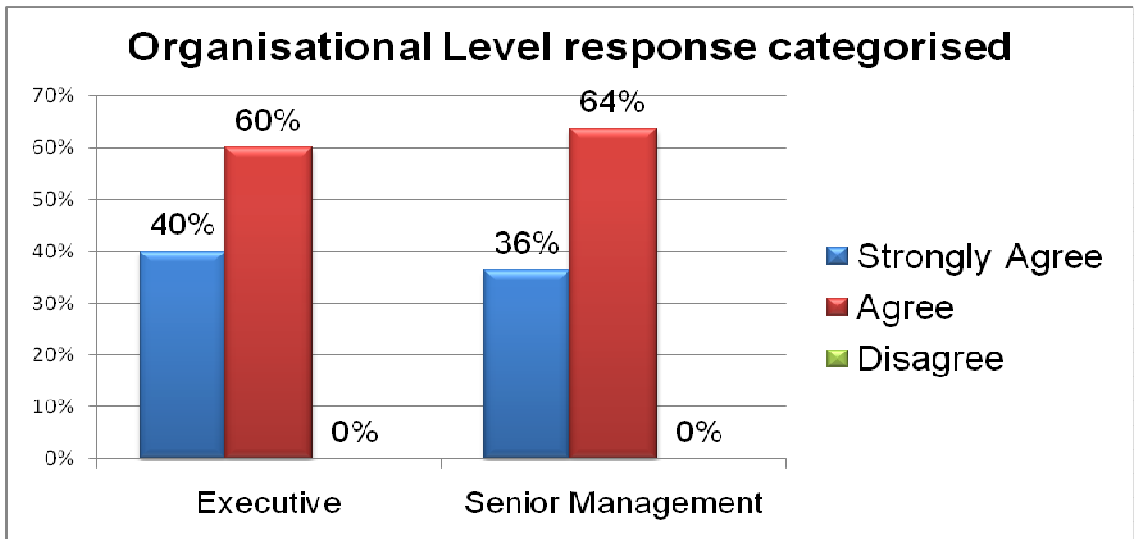
Similar to the total responses of the sample was the grouping responses. The financial and the non-financial responses were in exact relationship between the agreed responses and the strongly agreed responses (chart 5-12).

Chart 5-13 - Proposition 3: Grouping Response



The organisational level responses on both levels, displayed a similar relationship between the agreed responses and the strongly agreed responses as the total responses of the sample. The agreed responses were in the majority and the strongly agreed responses were in the minority.

Chart 5-14 - Proposition 3: Organisational Level Response



5.5 Results proposition 4: An effective reporting technology that was user-friendly and functional should be implemented in the organisation and should assist in the budgeting process

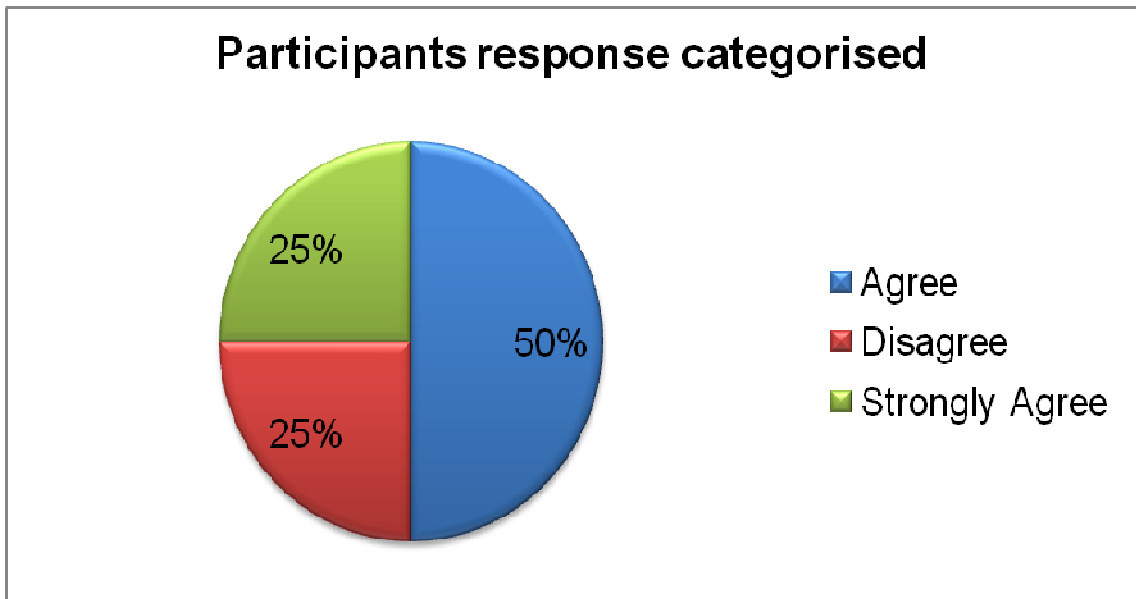
Respondents were prompt to elaborate on how technology was used in the budget process and which systems were utilised for which function. The disagreed responses indicated that the company was utilising Microsoft Excel to a greater extent than a budgeting tool or ERP system. The entire budget was being calculated and processed on an Excel spreadsheet with the information subsequently uploaded into their ERP system. No processing or calculations were done on any other system than on Microsoft Excel.

The strongly agreed responses were where the company was purely utilising an ERP system or a budgeting tool. These systems also included customised systems for the organisation and for the industry of the organisation. These systems could be customised to make small changes and those changes would process through the entire budget within seconds. The result would create no manual processing.

The agreed response category was a mixture between Microsoft Excel and a budgeting tool or an ERP system. The Budgeting tool or the ERP system was utilised more for processing and changes. A Microsoft Excel template was created and distributed to be completed by the different budget participants in the organisation. This Excel template usually stayed the same and consistent annually with only minor changes. The completed template contained some of the processing and set the base for the higher levels in the organisation. This completed template would then be uploaded in the ERP system for further processing and analyses.

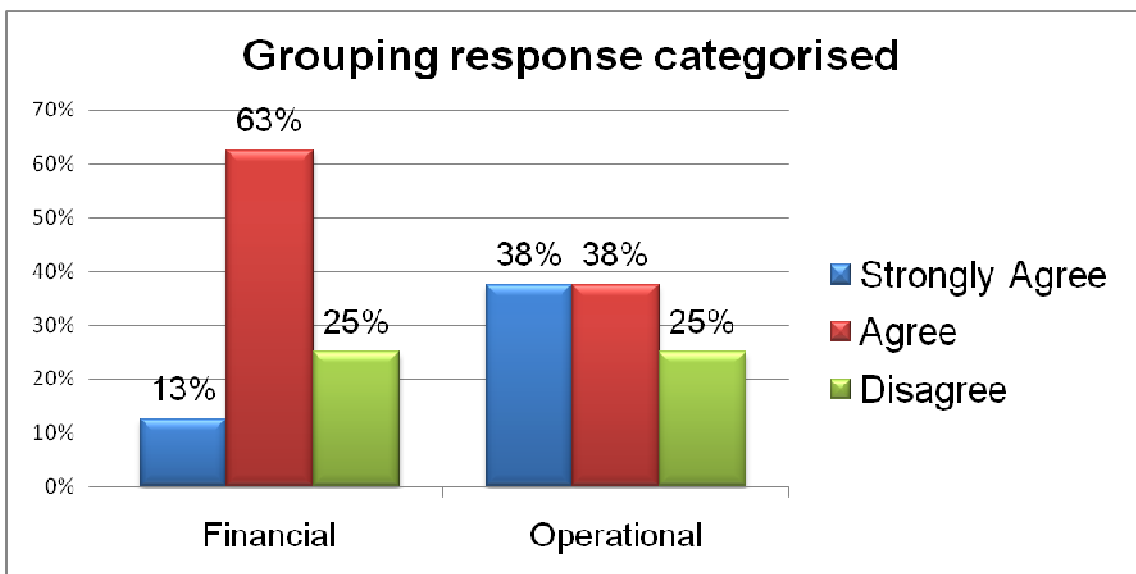
Half of the respondents indicated that they only agreed with the proposition, where the rest were evenly split between strongly agreed and disagreed.

Chart 5-15 - Proposition 4: Sample Response



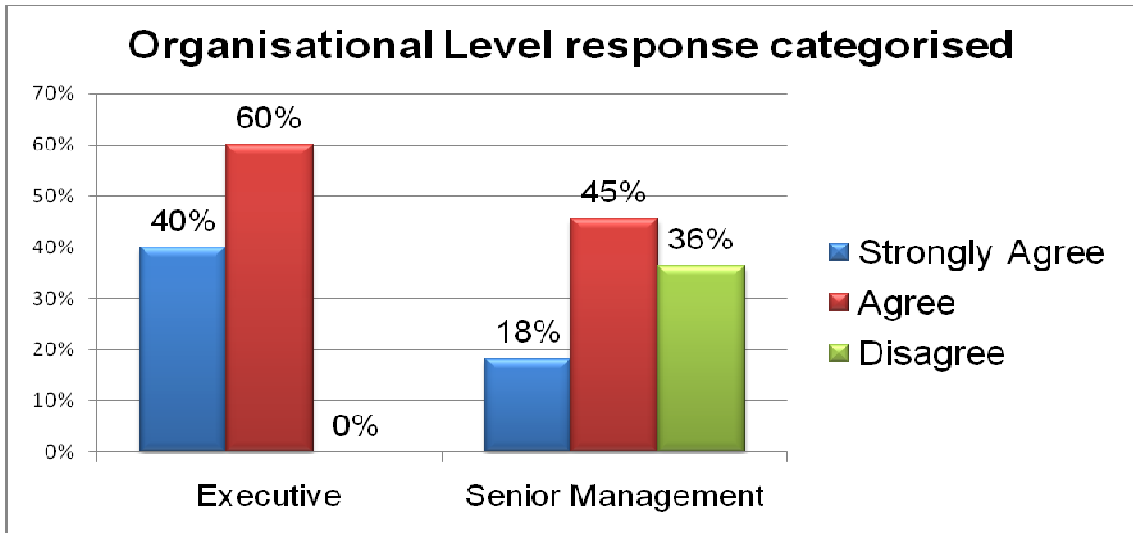
The financial responses indicated that the majority utilise a combination between Microsoft Excel and a budgeting tool or an ERP system. Strongly agreed responses were in the minority in this group. An even split between strongly agreed responses and agreed responses is indicated in chart 5-15, where the disagreed was the minority in the non-financial group.

Chart 5-16 - Proposition 4: Grouping Response



All respondents on the executive level in the organisational level responses agreed with the proposition. All the disagreed responses were received on the senior management level, although mixtures of the different systems were in the majority in this group.

Chart 5-17 - Proposition 4: Organisational Level Response



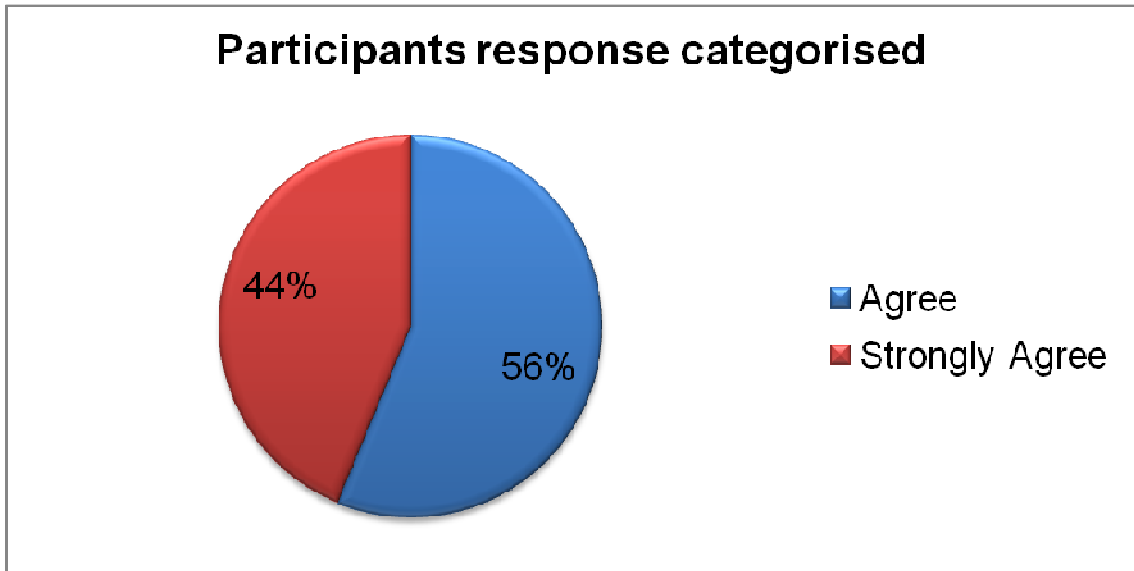
5.6 Results proposition 5: Organisations should be using driver based budgeting and forecasting, and should focus on critical drivers

The term driver based budgeting was clarified during the interviews with the participants. It was explained to the participants with the literature review as a guide to what critical drivers were and what driver based budgeting meant. This clarified the term to the participants and encouraged the participants to elaborate on this with relation to their organisation.

The smaller percentages responses strongly agreed whilst the majority responses agreed. The strongly agreed responses indicated that without a driver based budgeting or focus on critical drivers, the budget process and budgets that result from the budgeting process would be inaccurate and ineffective. One of the strongly agreed responses were: "Do it in detail (budget drivers) and then you will know why there are variances between the budget and the actual numbers (values), with this (budget

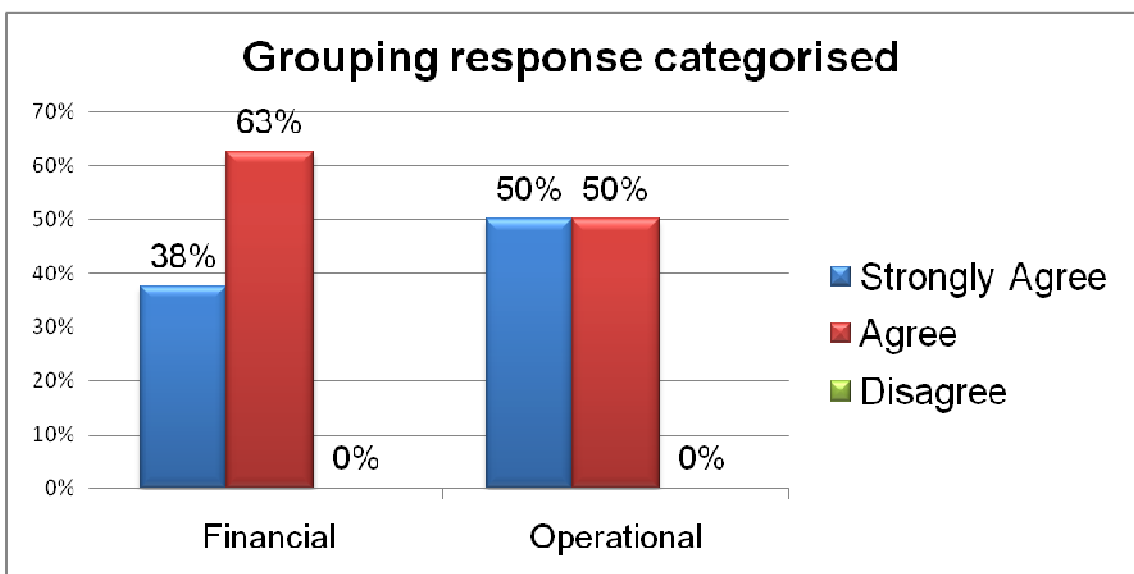
drivers) the managers can manage their actual performance against the budget and strategy”. There were no disagreed responses on this proposition.

Chart 5-18 - Proposition 5: Sample Response



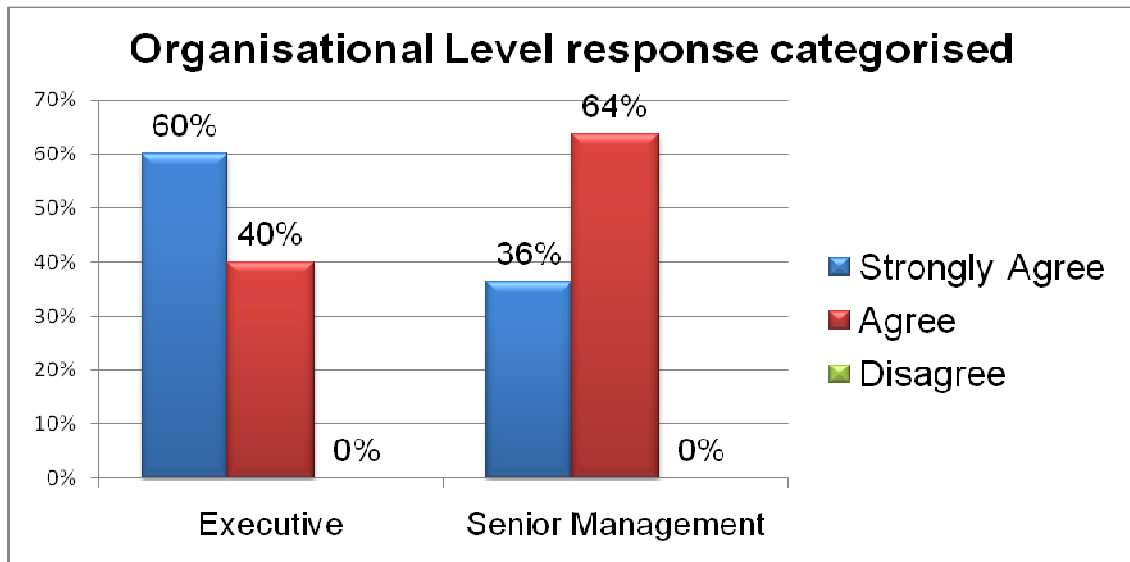
The grouping response for the financial responses were not an even split like the non-financial group. The strongly agreed responses were in the minority and the agreed responses in the majority. The agreed responses were 25 percent greater than the strongly agreed responses in chart 5-18. There were no disagree responses on this proposition.

Chart 5-19 – Proposition 5: Grouping Response



The senior management level was similar to the financial group responses, where the agreed responses were in the majority. The executive level had the opposite relationship between the agreed responses and the strongly agreed responses. The strongly agreed responses were in the majority and the agreed responses were in the minority.

Chart 5-20 - Proposition 5: Organisational Level Response

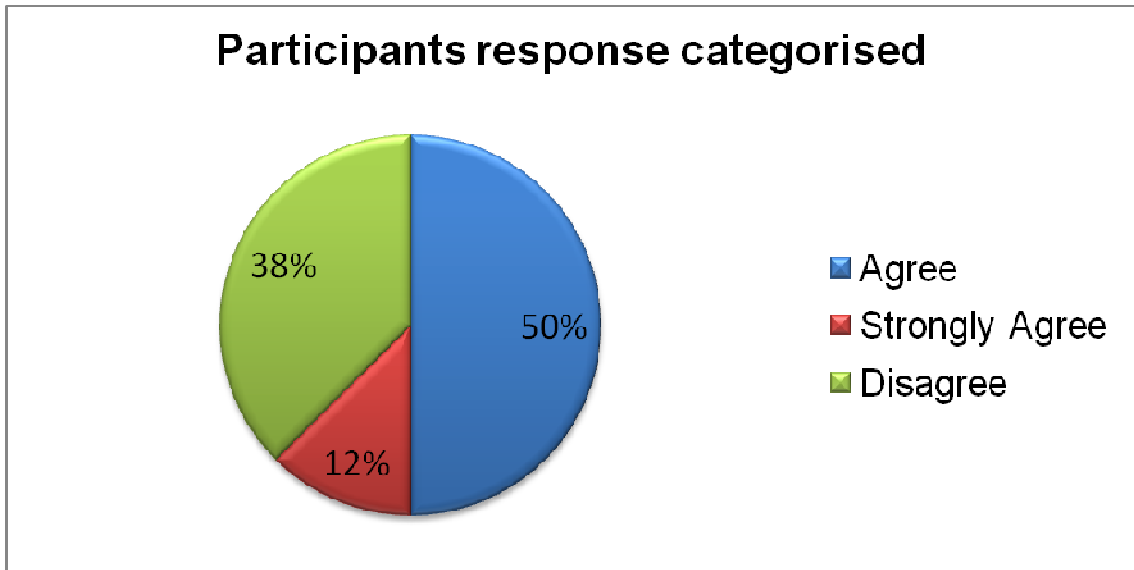


5.7 Results proposition 6: Rolling forecasts should be implemented in the organisation and it should have a five quarter future view

Rolling forecast was understood by most of the respondents. The strongly agreed respondents took their rolling forecasts to the next level of forecasting it per week for six months to a year. The agreed respondents were categorised by rolling forecasts occurring in their organisations. This occurrence would either be in their own department or on a higher level at the holding company. The disagreed respondents did not use any rolling forecasts or foresaw doing rolling forecasts for five quarters into the future.

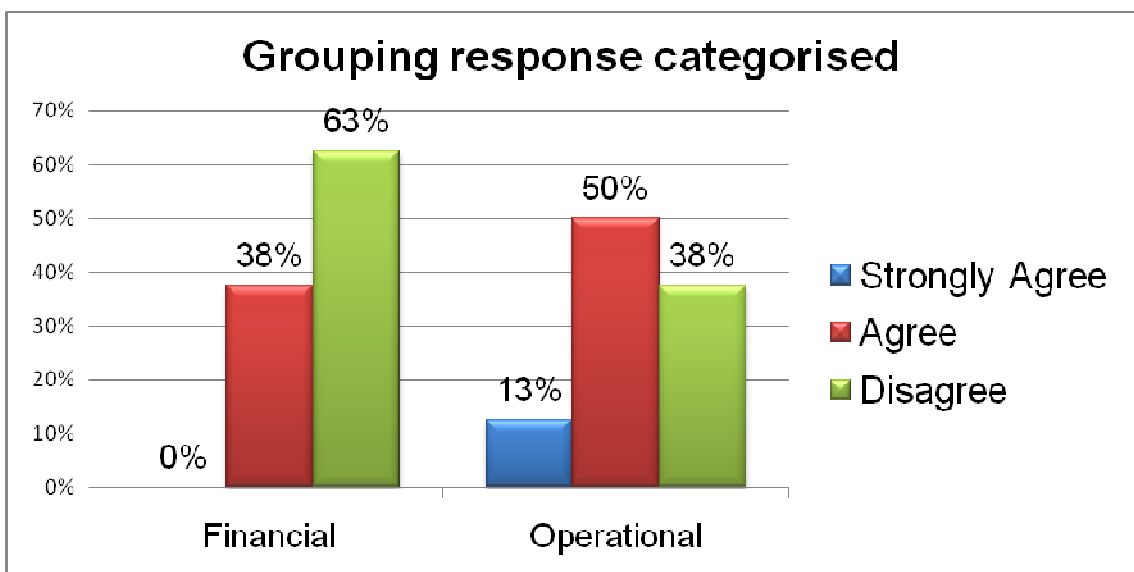
Half of the respondents agreed that rolling forecasts should be implemented and the minority of the responses were in the strongly agreed category. There were over a third of the respondents that disagreed with the proposition.

Chart 5-21 - Proposition 6: Sample Response



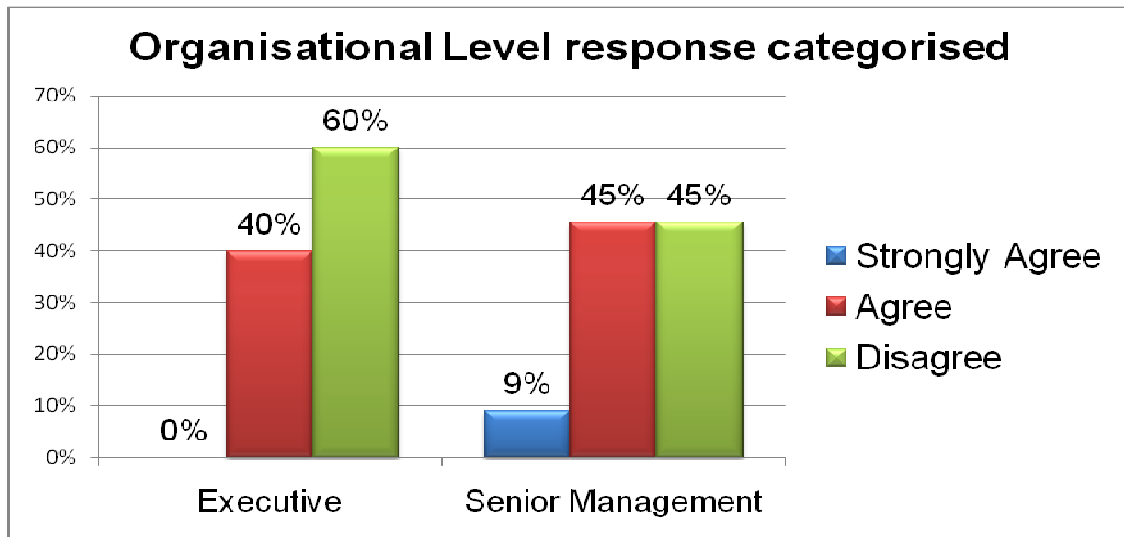
In the financial group, most disagreed with the proposition. A response from one of these respondents stated that “if rolling forecasts are done in their organisation, a dedicated person or department should be appointed and do only budgets and forecasts for an entire year. This is a waste of money and resources”. The non-financial group had an opposite relationship to the financial group, respondents agreed in the non-financial group, but there was not a great percentage difference between the agreed responses and disagreed responses.

Chart 5-22 - Proposition 6: Grouping Response



The executive level of the organisational level responses was similar to the financial group from the grouping responses perspective. The disagreed responses were in the majority on the executive level, while on the senior management level, an equal split between the agreed responses and disagreed responses were indicated. The only strongly agreed response was on the senior management level.

Chart 5-23 - Proposition 6: Organisational Level Response



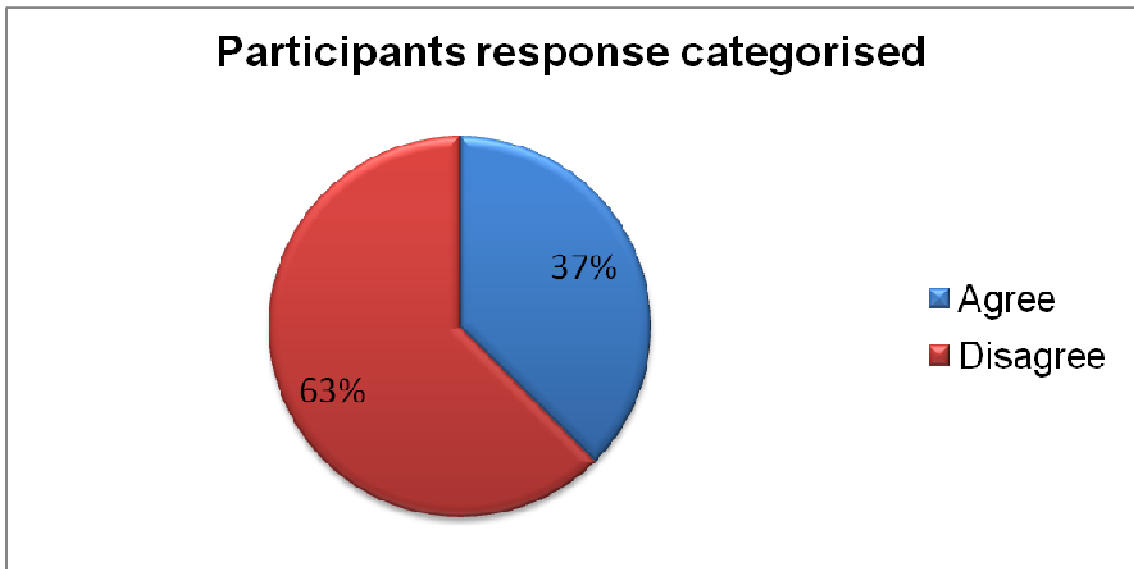
5.8 Results proposition 7: The cycle time for budgets in the organisation must be one month, and for forecasting, one day.

The prompt in the interview guide with regards to the cycle time of budgeting had to be explained and clarified with each respondent. This ensured that all defined the time period for the budget process as the same. The prompt in terms of the cycle time on rolling forecasts were only made to respondents that had rolling forecasts in their organisation.

The agreed responses were categorised on the basis of the responses of the participant's view. These views were of what the cycle time should be and if the organisation should be planning or improving their current cycle time to a period of one month or less. The disagreed responses did not believe that the cycle time could be shorter than one month as experienced in their companies.

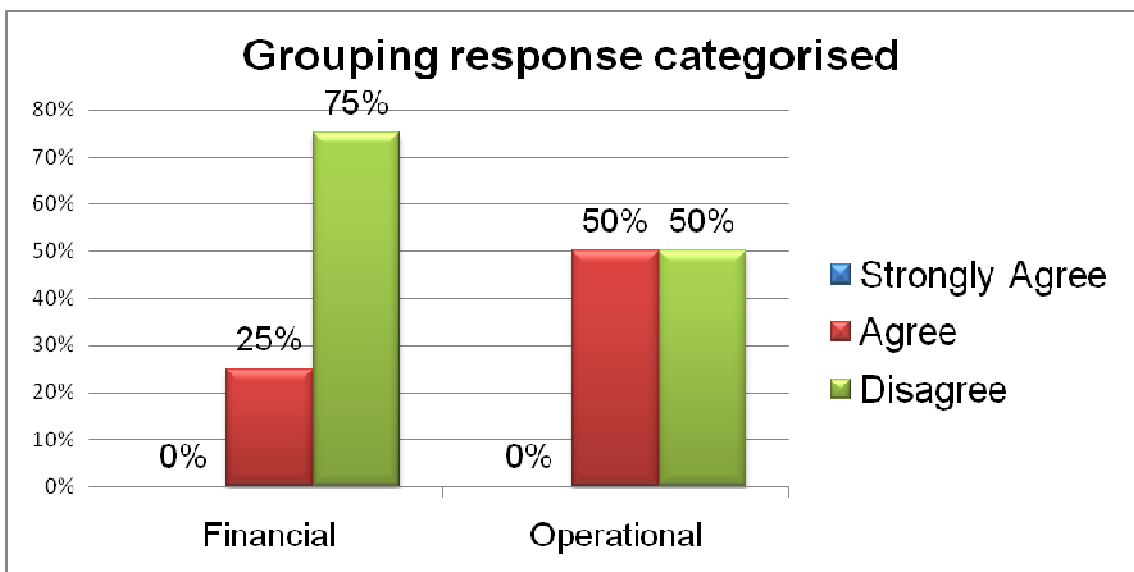
The majority of the responses were that they disagreed that the cycle time for a budgeting process must be a month or less and that for forecasting is should be one day.

Chart 5-24 - Proposition 7: Sample Response



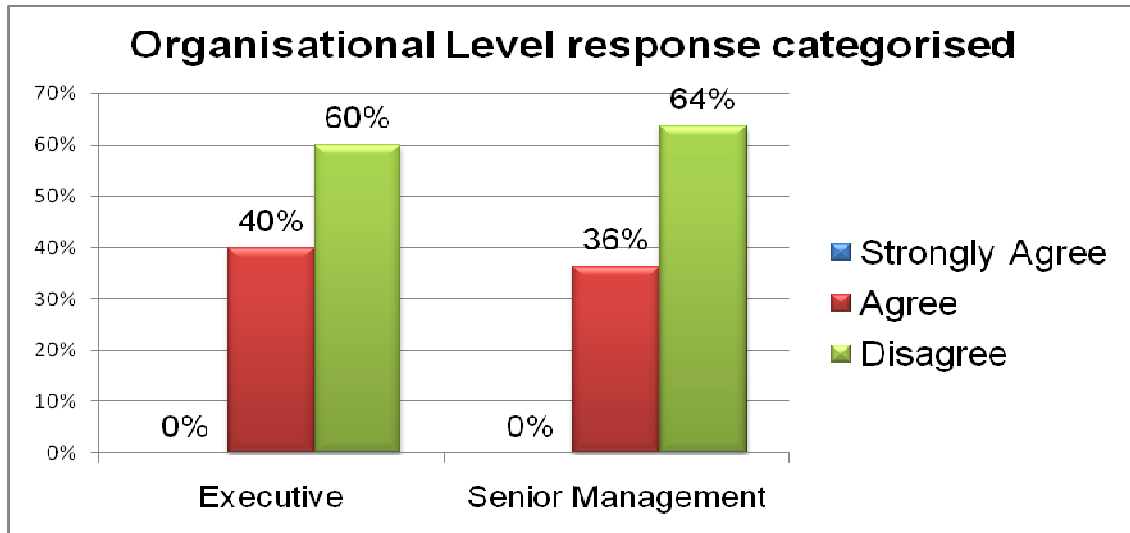
In the financial group the majority disagreed with this proposition and they believed that this to be an impossibility, while the non-financial group had an exact split on the disagreed responses and the agreed responses.

Chart 5-25 - Proposition 7: Grouping Response



On the organisational level, both levels indicated that they disagreed with the proposition. This is similar to the total responses of the sample. The agreed responses on both levels were in the majority.

Chart 5-26 - Proposition 7: Organisational Level Response



5.9 The view of the participants' responses

All data that was transcribed to an electronic format, was analysed using a categorisation matrix (Elo and Kyngäs, 2008) in a Microsoft Excel spreadsheet. All the participants and their organisations were assigned an identification code. This identification code ensured that their responses were kept confidential as agreed upon on the consent form and the commencement of the interview. These identification codes were given in no specific order and were done randomly.

Diagram 5-1 and diagram 5-2 below indicates the categorisation matrix used with the identification codes for the responses. The responses were categorised by the propositions or prompts that was given during the interviews. The propositions or categories can be seen on the column headers in diagram 5-1 and diagram 5-2. All the interviews were done within an hour. The experience in the organisation and the level the participant was currently working in, in the organisation, was noted at the commencement of the interviews.

Diagram 5-1 - Overall view of first four proposition responses

| Identification Codes | Balanced Scorecard | Incentives and Gaming | Communication and Collaboration | Technology and Systems |
|-----------------------------|---------------------------|------------------------------|--|-------------------------------|
| 2012001 | Agree | Disagree | Agree | Agree |
| 2012002 | Disagree | Disagree | Agree | Strongly Agree |
| 2012003 | Agree | Disagree | Agree | Agree |
| 2012004 | Agree | Disagree | Strongly Agree | Agree |
| 2012005 | Disagree | Agree | Strongly Agree | Strongly Agree |
| 2012006 | Disagree | Agree | Agree | Strongly Agree |
| 2012007 | Agree | Agree | Strongly Agree | Agree |
| 2012008 | Disagree | Agree | Agree | Disagree |
| 2012009 | Agree | Agree | Agree | Disagree |
| 2012010 | Disagree | Agree | Agree | Disagree |
| 2012011 | Agree | Strongly Agree | Agree | Agree |
| 2012012 | Disagree | Strongly Agree | Strongly Agree | Strongly Agree |
| 2012013 | Disagree | Agree | Strongly Agree | Disagree |
| 2012014 | Disagree | Agree | Agree | Agree |
| 2012015 | Agree | Agree | Agree | Agree |
| 2012016 | Agree | Agree | Strongly Agree | Agree |

Diagram 5-2 - Overall view of last three proposition responses

| Identification Codes | Driver Based Budgeting and Forecasting | Rolling Forecasts | Cycle Times |
|-----------------------------|---|--------------------------|--------------------|
| 2012001 | Strongly Agree | Disagree | Disagree |
| 2012002 | Strongly Agree | Disagree | Disagree |
| 2012003 | Agree | Disagree | Disagree |
| 2012004 | Agree | Agree | Disagree |
| 2012005 | Agree | Agree | Disagree |
| 2012006 | Strongly Agree | Agree | Disagree |
| 2012007 | Strongly Agree | Agree | Agree |
| 2012008 | Agree | Strongly Agree | Agree |
| 2012009 | Strongly Agree | Disagree | Disagree |
| 2012010 | Agree | Disagree | Agree |
| 2012011 | Agree | Disagree | Disagree |
| 2012012 | Agree | Agree | Agree |
| 2012013 | Agree | Agree | Agree |
| 2012014 | Strongly Agree | Agree | Agree |
| 2012015 | Agree | Disagree | Disagree |
| 2012016 | Strongly Agree | Disagree | Disagree |

Chapter 6 Discussion of Results

The design of this research is grouped around seven propositions. The research results and discussion of the results also focus around these seven areas of investigation. The results of the sample composition, groupings and levels of the organisation have been discussed in chapter five and will not be reviewed again in this chapter.

All the participants are exposed to strategic planning in a turbulent and changing environment. This is followed by the budgeting process and planning of the budget. Some of the respondents indicated that the budget is a financial result of the strategy planning. The survey of (Shastri and Stout, 2008) displayed that 69.5% of the respondents indicated that the primary planning tool continues to be a static budget, defined as a budget valid for only one planned volume level of activity for the upcoming budget period. Most organisations prepare budgets with an one year time frame to cover the upcoming fiscal year, but it is also possible to follow another practice, the so-called continuous budgeting (De With and Dijkman, 2008). All the participants in this research prepared their budgets in their organisation once a year. No participant indicated that a different method is used, such as the continuous budgeting method.

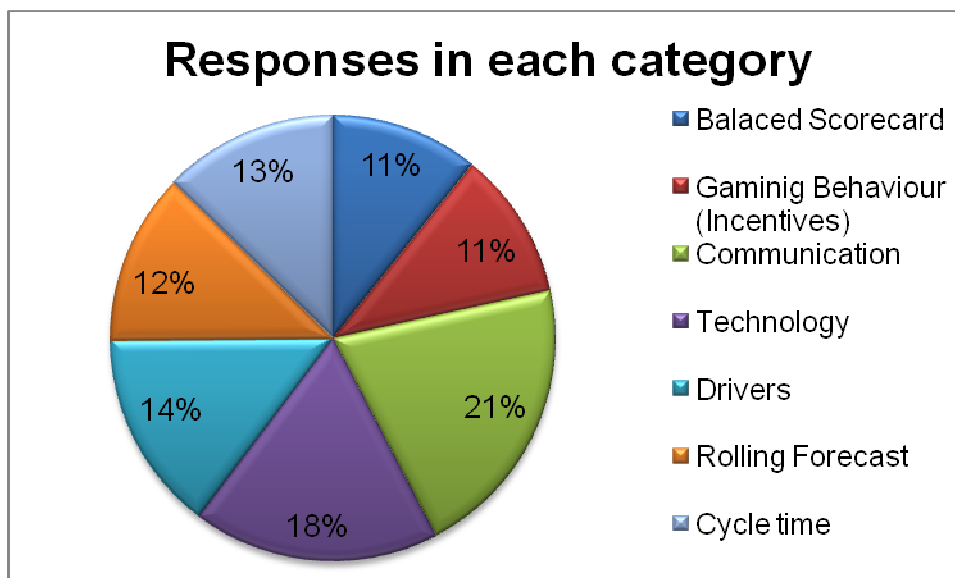
The budgeting process contains a participation structure to determine the budget targets. The budget targets are developed either top down or bottom up or using a combination of these two approaches (De With and Dijkman, 2008). In a survey done by (Shastri and Stout, 2008), in 69.2% of their respondents, the development of the budget was accomplished via a negotiation process (a combination of a top down and a bottom up approach). This combination approach is present in all the participants' organisations.

6.1 Consolidated summary of responses by participants

Prior to discussing the results of each proposition, it is useful to set a high level context around the findings from the key prompts of the interview guide. The responses of the participants to the prompts surrounding the communication in the organisation with regards to the budget process, the different systems that are used to be able to do the processing and whether drivers are used in the organisation, solicited the most responses. Using a balanced scorecard on a regular performance review process and the incentives that are linked to the strategic drivers in an organisation to disable gaming behaviour, solicited the least responses.

The highest responses obtained were with the communication in the organisation prompt (23%) and the technology used (20%). These categories were followed by the drivers used in the budgeting process (16%), the rolling forecasts that should be used in the organisation (14%) and the length of the budget cycle time (14%). The lowest responses were the balanced scorecard (12%) and the incentives linked to the strategic drivers (12%). The chart 6-1 indicates the responses in each category.

Chart 6-1 - Responses per category



6.2 Results discussion proposition 1: Organisations should use balanced scorecards on a regular performance review process

The review of the literature showed that organisations should be using balanced scorecards on a regular performance review process. Balanced scorecards would be conditioned to the internal arrangements of the performance vectors (alignment), highlighting the importance of the integrated management strategy and the business model in order to have a higher total value to be distinguished to the stakeholders (De Carvalho Rezende and Nogueira, 2010). Accounting systems are frequently noisy sources of information for evaluating the performance of employees (Penno, 1990). Yet, because they are typically the main formal source in business organisations, accounting numbers are used for the performance evaluation (Penno, 1990).

The survey of (Shastri and Stout, 2008) indicated that the most frequently used practices were supply chain management and the balanced scorecard, both of which are linked to the budgeting process used. The results of this proposition (chart 5-5) indicate that there are different methods used to assess and evaluate the budget outcomes and performances or the fulfilment of the strategic plan. The 50% that is using the balanced scorecard, believes assessing the plan is important, but assessing the process in building the plan and measuring the success of that plan reaps more benefits. The benefits that are realised with the balance scorecard, according to some of the respondents is to know where the organisation is currently and what still needs to be done for the organisation to reach their budgetary requirements or the targets that is set when the budget is finalised and approved.

The balanced scorecard is a reflection of the organisational business plan. The business plan has different linkages. The main links from the respondents were the key performance areas, the drivers in the organisation, the strategy drivers with financial value and the budget (financial result). It also indicated whether the budget that was used, was aligned to the macro economics of the market and industry, the risks that were present in the organisation and the strategy.

The respondents that agreed to this proposition of using the balanced scorecard, indicated that this was an easy method to link even the key performance indicators with the budget. Organisations should use appropriate key performance indicators and scorecards (Pilkington and Crowther, 2007). It was also stated by the respondents that “there is a long term value using a balanced scorecard and it is an effective method in a large organisation to keep track of different functions and results”. With a regular review process, it can indicate where the thinking process in the budget planning stage could have been altered.

The respondents that disagreed with using a balanced scorecard, were adamant that the company is not using balanced scorecards and perhaps there are other methods that they are measuring the successes by. There are no direct links made on the method of their measuring to the strategic plans set before the budgeting process. A quotation from one of the respondents that disagreed: “It is a nice tool to use, but should only be used at the highest level in the organisation if the other reports or business plans are not sufficient”. Objectives should be set on the highest level of the organisation and only tasks should be allocated to the appropriate levels.

One of the disagreeing respondents stated that he does not agree that the use of financial figures to measure performance or give rewards is correct. The balanced scorecard should only be used as a sanity check and should not require a huge focus. With a balanced scorecard not needed in the company, the disagreeing respondents felt that this needed extra time, wasted precious resources and was a waste of money. They do not see any value added from an implemented balanced scorecard in an organisation. It only adds to their frustration and creates a loss of focus with regards to the tasks on hand and the day-to-day operations.

“If a balanced scorecard is implemented in an organisation, it will be felt by the employees that it is forced on them” a respondent stated. It was felt that if anything was forced onto anybody in the organisation, there would be no buy in on that which was forced down on them. This would result in these individuals or teams not taking responsibility, be accountable or feel proud. A respondent believed that if a driver from the balanced scorecard was needed to drive individuals and teams in an organisation,

it would be a mess. The best method rather to drive people to achieve a goal was through other people in the organisation and not something that was indicated on a balanced scorecard.

From the grouping results it was interesting to note that the financial group believed in the use of a balanced scorecard and that this added value to the business. They perceived it to be an easy method to link the key performance factors to the different strategic drivers. Through their different responses, the majority of the non-financial group did not perceive the balanced scorecard as value added to their business or to their operations.

The findings of proposition 1, has been found to be true with the exception that the balanced scorecard was not an assessment method of much value for the operations group.

6.3 Results discussion proposition 2: Incentives should be linked to strategic business drivers in an organisation to disable gaming behaviour

The literature review indicated that the gaming behaviour can be a causal effect of the method of incentivising employees in an organisation. One of the biggest problems with budgets are that they tend to promote an in-ward looking, short-term culture that focuses on achieving a budget figure, rather than on implementing business strategy and creating shareholder value over the medium to long term (Neely *et al.*, 2003).

Most of the respondents agreed (62%) and strongly (13%) agreed that the incentives should be linked to the strategic business drivers in an organisation to disable gaming behaviour (chart 5-8). All of these respondents believed that the employees and teams should be incentivised on their individual performance and not on the budget performance of the company. Those individuals have no control if the next employee is taking a decision that can create a financial loss for the company. The respondents felt that the employees should be incentivised on what they can control and that if anything

that occurs outside their control, they should not be penalised nor rewarded for that occurrence. “The reward on financial success should be pinpointed to the responsible and accountable party” a respondent stated.

There is no perfect formulation on how to compensate employees of an organisation. It should be a constant discussion according to a respondent. The goals should be linked to their key performance areas. There should rather be a culture in the organisation to stay with the budget performance. This will allow a realistic budget and a motivator for each employee. Some respondents felt that this would disable any gaming within a company.

Managers try to create slack in budgets to get a better performance evaluation (De With and Dijkman, 2008). When setting up the budget or reviewing the budget, all figures should be supported with facts and not fiction. “If there are facts involved, this will disable the gaming behaviour and no “fat” will be calculated into the budget” a respondent said. This means that if the entire budget and the assumptions made in the beginning of the budgeting process can be supported through documentation or historical trends, no extra margin will be built into the budget, creating room for error. Any errors occurring afterwards would rather be a lesson learnt by the party that did not complete their budgets accurately.

A study done by (Cassar and Gibson, 2008) indicates that there are no gaming influences where there are incentives to alter forecasts. The survey of (Shastri and Stout, 2008) indicates that the respondents perceive the budget to be more useful for coordinating across levels in the organisation as well as a tool for incentive rewards determination. This can indicate that the employees feel that they should be rewarded when they are actively involved in the financial success of an organisation.

There were a small portion of respondents that disagreed (25%) with this proposition of incentivising on strategic drivers. These respondents are currently incentivised on the financial budget performance of their organisation. It was indicated that there should be a culture in the organisation that encourages each other to enhance their performance,

because it will affect the financial performance of a company. If all work as one team, the organisation will be stronger and will find success in the financial performance.

The financial performance is a result of all the different stakeholders in a company working together and putting extra effort into their goals set on their different levels in the organisation. Incentive targets or short-term targets are also a method of motivation to the employees and teams of the organisation. If the company does not outperform the budget financially or the targets set by the organisation, then there should be no incentives for the employees. This will support the type of culture the organisations wish to embrace for their company.

In the survey done (Shastri and Stout, 2008) with regards to the feedback/control purposes, most respondents compared actual results to budgeted results on a monthly basis using financial and non-financial measures. Moreover, 78% of the respondents reported that managerial compensation plans, including incentive compensation formulas, incorporate achievement of specified budget objectives for financial performance measures, while 62.7% reported the same for non-financial measures (Shastri and Stout, 2008).

In terms of proposition 2, it has been confirmed that Incentives should be linked to strategic business drivers in an organisation to disable gaming behaviour. The responsible or accountable party for financial success should be rewarded.

6.4 Results discussion proposition 3: The organisation ought to have effective communication and collaboration at all levels and understanding of the budget process

Organisations of all types struggle with budgeting (Shimamoto, 2012). This is often because the team does not understand the budgeting process (Shimamoto, 2012). Management's plans will not be carried out unless the organisation understands them (De With and Dijkman, 2008). The budgeting process consists of different phases and

all the phases involve formal and informal communications and interactions such as meetings and conversations (De With and Dijkman, 2008).

All the respondents agreed that communication and collaboration should be effective at all levels of the organisation and that the process should be understood. There were different methods of communications and the structure approach could be a determinant of the effectiveness of the communications according to the respondents. Meetings occurred between departments and levels. Discussion of what would be achieved and how it would be achieved were some examples given by the respondents. All the respondents indicated that budget presentations were made to the executive level or to the board of the organisation. This was two of the frequently used methods of communication. Guidelines and deadlines would be communicated at the start of each budgeting cycle accompanied by how the budgeting process worked.

The structure approach influences the communication and the collaboration extensively. With a top-down budgeting approach, senior management sets the budget for the lower levels (De With and Dijkman, 2008). This does not work as effectively, because there is no accountability or responsibility perceived by the lower levels for this budget. This is an indication of lack of commitment by the lower levels and therefore endangering the plan's success. A bottom-up structured approach will generate commitment from the lower levels, but can result in the budget not matching the overall organisational objectives (De With and Dijkman, 2008).

The structured approaches mainly used by the respondents' organisations are a combination of the bottom up and top down approach. The top down approach will provide the guidelines, while the lower levels will then create a budget and run with the budget process until it is completed. The budget will then be communicated through presentations and various meetings to the upper levels. The upper levels will in turn provide feedback on the presented budgets. The lower levels will take the feedback and incorporate it into the budget. The responsibility lies at the bottom level according to one of the respondents. "The top level will only make adjustments when necessary at the end of the process". This process will repeat itself until all the different levels are satisfied with the budget. The budget is the most useful device for communicating

quantitative information concerning plans and limitations (De With and Dijkman, 2008), (Cassar and Gibson, 2008).

The communication and collaboration are important for the respondents and for a few even critical. If the assumptions or guidelines given are incorrect or incorrectly interpreted, it can have negative effects on the budget and the budgeting process. These assumptions and guidelines are determined before the budgeting process through various sources. When there is a change in these factors, it will be communicated to the different stakeholders so as to adjust their budgets and budgeting process.

This is a huge process and should be understood by all stakeholders. According to a respondent the roles of each stakeholder should be known to the next and they should understand the flow of information. If the flow is not understood, the knowledge of where the information can be found will be unknown. This can cause some frustration and place stress on the budgeting process and also on the stakeholders. Constant collaboration on the progress of the budget process should occur.

The finding is that proposition 2 was found to be true and that there were no exceptions. This is seen as one of the critical factors in the budgeting process. If there is no communication, no process will occur or be successful.

6.5 Results discussion proposition 4: An effective reporting technology that is user-friendly and functional should be implemented in the organisation and should assist in the budgeting process

The budget process at most companies is broken, because of persistent problems that fall into three areas: people, process and tools (Orlando, 2009). Technology in the survey done by Orlando (2009) indicated that this is a pain point lamenting the shortcomings of their budget tools. Four out of five of these replies expressed

frustration specially with budgeting in Microsoft Excel spreadsheets with comments such as: “Changes are very difficult in Excel and it is impossible to drill down into data” (Orlando, 2009).

A quarter of the respondents (25%) strongly agreed to effective reporting technology that was user-friendly and functional. This should be implemented in the organisation and should assist in the budgeting process. These respondents believed that the only system that should be used in the budgeting process, is an ERP or a budgeting system. This system must be customised to the organisation and also to the organisations’ industry. All the processing should occur on this system and all the stakeholders in the budget process should solely use the system for setting up the budgets.

These respondents were of the opinion that if everybody worked on one system, all the required information (for example the assumptions and outputs of one department would be inputs for the next department *etcetera*) would be loaded onto that system in real time with immediate updates. This would enhance the efficiency around the budgeting process. Any changes that occurred on assumptions or guidelines, needed to be changed in the system and without any time wasted a new budget would be processed and received. On a system there are minor errors occurring through the human element, and no formula errors occur if the system is developed correctly. The system should be the ERP system or work similar to the ERP system in the organisation.

The system has drill down capabilities and historical trends will be stored into the system for later viewing. The data indicate the composition of a value and how it is calculated. According to the respondents, this is useful when comparing the actual financial performance with the budget. The system can track changes and it frees up the stakeholders’ time on processing the data.

Outputs are mostly the inputs for the majority (75%) of the respondents (the respondents using a combination of Microsoft Excel and an ERP or budgeting tool and

the respondents only using Microsoft Excel). These respondents have an established template on Microsoft Excel. As organisations refine their accounting systems and the use of these outputs, the capacity to make more accurate budgets should be enhanced (Cassar and Gibson, 2008). Through an input sheet, the data gets populated to the different accounts and areas. The templates have been set up with all the necessary formulations and it has checks and balances in place.

The template, according to the respondents has been used annually and only small adjustments or corrections have been made to this template. In the respondents' opinion, if the template is standardised, the knowledge that is accumulated by utilising the template over and over again creates user-friendliness. Microsoft Excel is used in all organisations. The stakeholders of the budgeting process are capable of navigating themselves around an Excel spreadsheet.

Short cuts are also identified in Microsoft Excel with regards to these templates. One of the popular short cuts is the Goal Seek function. This is normally used when feedback is received from the upper levels after the first round of budgeting. The respondents that disagreed (25%) to the proposition would like to continue by only using Microsoft Excel and only uploading the final budgetary figures into the organisations' ERP system.

The respondents that agreed (50%) utilises two systems. It is a combination of Microsoft Excel and an ERP or budgeting system. The processing of the data will occur in both of the systems. In certain areas of the organisation, the lower levels will calculate and process data on Microsoft Excel and upload it into the ERP or budgeting system. The next level above the lower level will then modify the data and process the budget until it is completed for presentation. Comments of respondents were that they utilised the best of both systems.

The finding is that proposition 4 was not found to be true, and that there should be more than one system utilised. A hybrid between Microsoft Excel and an ERP or budgeting system.

6.6 Results discussion proposition 5: Organisations should be using driver based budgeting and forecasting, and should focus on critical drivers

To improve the budgeting process and system, more focus needs to be placed on the connection between operational planning (activities or drivers) and the financial results (De With and Dijkman, 2008). The cost drivers and processes need to be identified for any improvement in the budgeting process (De With and Dijkman, 2008). It is important for the budgeting process to identify the metrics that drive the operations in an organisation, for example: if the organisation needs to increase the revenue, what are the drivers and what items can be leveraged (Orlando, 2009).

All respondents agreed that the budgeting or forecasting of an organisation should be using driver based budgeting and there should be a focus on the critical factors. Each industry and organisation should have different drivers identified. Only a few drivers in any organisation would be similar, for example the operating profit might be a driver in an organisation, or the consumer index will be shared among the organisations. The market place for selling and purchasing has a great influence on the financial performance of the company. The drivers that were identified by the respondents were internal and external drivers. Internal drivers that were identified by the respondents could be the capacity or resources needed to manufacture or sell the products. External factors could be as stated above, the consumer index, or the economical environment the organisation is finding itself in. The drivers can determine if the organisation is experiencing financial success or a financial disaster.

If the assumptions of the drivers in the budget are miscalculated or incorrectly interpreted, it will have a huge influence on the accuracy of the budget. The respondents did mention that the lower levels might budget in more detail to be able to explain any variances between financial values and the budget values. This data gets rolled-up into different drivers of the company. The upper levels of the organisation focuses on these drivers, especially on the critical drivers that might have the biggest risk and impact on the organisation and the budget.

It is stated by some respondents that it is imperative to know the organisation and what drives the profit in the organisation. Without this knowledge, the incorrect drivers can be focused on and have detrimental repercussions on the organisation. This was a critical factor for some of the respondents. “Without knowledge of the organisation, the budgets will be useless” stated a respondent. Sanity checks on these drivers also indicated to the reviewer of the budgets the accuracy of the budget and if the budget or forecast is realistic.

Most of the organisations that the respondents represented use zero based budgeting. This ensures that the budgeting is done from a zero value and that the drivers are not calculated on a cost plus inflation base. This ensures that the budgets are done more accurately. If the budget is broken up into these drivers, it makes it more understandable to the stakeholders according to a respondent. A respondent commented: “To ensure that it is even more understandable, keep it simple and do not cloud it with too much detail”.

The respondents felt with doing driver base budgeting, the relationship can be identified easier between the different cost and profit drivers. Each driver and process does not operate as an island of activity, but is a comprehensive approach to support all organisational activities (Jehle, 1999). This is an indication that a “what if” analysis can be done during the budgeting process. If the one driver changes, it will indicate and influence another driver. The extreme circumstances can then be tested and reviewed for risks (giving the worst case scenario and the best case scenario).

The findings are in support of proposition 5 in terms of which organisations should be using driver based budgeting and forecasting, and should focus on critical drivers.

6.7 Results discussion proposition 6: Rolling forecasts should be implemented in the organisation and should have a five quarter future view

By definition, the static budget provides scant opportunity to adapt quickly, so it is interesting to learn that the majority of respondents continue to use the static budget, given the available options for planning purposes, such as rolling forecasts (Shastri and Stout, 2008). Forecasts, especially revenue predictions, have a vital influence on many commercial decisions and subsequently organisational growth, profitability and survival (Cassar and Gibson, 2008).

The advantage of a rolling forecast is that managers adapt the budget to the current circumstances (De With and Dijkman, 2008). The set of information likely to be available to managers to assist in making rolling forecasts includes past patterns of sales and costs, current period sales and costs, economic conditions, strategic changes in the organisational activities and planned changes in the organisation's prices and product mix (Cassar and Gibson, 2008).

Importantly, budget preparation and rolling forecasts are not identical constructs (Cassar and Gibson, 2008). This indicates that the processes between rolling forecasts and budgeting are different. The responses received from the participants concur with this statement. The majority (62%) agrees that rolling forecasts should be implemented in the organisation. The rolling forecast process is done differently from the budgeting process. The rolling forecast is done on a higher level of detail and organisational level. The lower levels of the organisation do not always get involved in this process. The rolling forecast is an indication of what can be expected in the future.

More of the respondents found rolling forecasts more useful for cash flow planning for the future. According to the respondents, an organisation should be aware at all times of their cash flow and how different it can be in the future through various changes (by the drivers of the organisation). This also supports the planning of the utilisation of cash in the organisation. The utilisation of cash can be for mergers or acquisitions, an example given by a respondent.

The reaction time increases for any turbulence in the market or in the industry. This assists in analysing the final position the organisation will find itself in at the end of the fiscal year. The respondents commented that the business should always be up to date in the current turbulent, changing economic circumstances. One respondent took the rolling forecast to the next level, by doing a rolling forecast per week. This is an indication to the team what the targets are for that week and how they can achieve it.

Other respondents indicated that they do forecast business plans. These forecast business plans are a forecast for the next few years, for example the forecast of the financial position over five years. This seems to be a common practice for these listed companies. The actual performance is compared with this future forecast and it determines if there should be any adjustments made to the future forecast. The future forecasts are also used to indicate to the shareholders the expected growth of the organisation.

The respondents that disagreed (38%), indicated that their organisations did not use rolling forecasts and did not believe that there were extra added benefits if the actual financial performance and the budget performance in the past had small variances. If the budget is done correctly and the stakeholders know and understand the business, then there should not be huge variances and should only see a small error or variance percentage. For other disagreeing respondents, they seem to believe that this will stay a non scientific generated value and adds no meaning to the business.

These respondents also believe that there are too many changes in the economical environment, to be able to adjust to these factors, and will be time consuming. Time consuming then also indicates a waste of resources and a waste of money or income. Forecasts are time consuming and costly to put together (Neely *et al.*, 2003). The resources should rather concentrate on the operations and their goals set by the budget, than to concern themselves with forecast goals.

The findings for proposition 6 indicates that it is true and that Rolling forecasts should be implemented in the organisation and should have a five quarter future view.

6.8 Results discussion proposition 7: The cycle time for budgets in the organisation must be one month and for forecasting a day.

The budget is seen as being too time consuming (De With and Dijkman, 2008). The faster the industry moves, the faster the organisation shifts priorities and the more often the organisation has to adjust their plans and hence, the organisation budgets (Jehle, 1999). As the competitive landscape changes, the organisation should be changing and in times of change, organisations need to plan and then re-plan quickly (Jehle, 1999). Fast, efficient budgeting, rolling forecasts and effective management reporting and analysis is the key to managing changing conditions or deviations (Jehle, 1999).

With no official best practice benchmark, the ideal average cycle time should be closer to one month (Thomson, 2007). The minority of responses (37%) agreed with the proposition that the cycle time for budgets must be one month. A few of these respondents suggested that the cycle time could be shorter than that. A respondent commented: “If enough guidance or direction is provided by the senior management or the executives of an organisation, the cycle time will decrease dramatically and could be less than a month.”

Boundaries should be set early and specifics need to be given on what is expected by senior management. This will eliminate some of the frustrations that these respondents are experiencing. Time should rather be used by thinking during the year and not only when the budget process commences. The respondents believe that most of the time is lost thinking and that no actions are occurring as promptly as they would hope. Cycle time is also influenced by the technology that is used by the organisation. If the system is used effectively, the cycle time will be shortened.

There are too many stakeholders involved in the budgeting process. One of the respondents felt that if fewer stakeholders were used in the budgeting process, it would be known who had which data and did which function in the budget process. The respondents linked time to money and believed if the process was long it was costing the company revenue and the shorter it was, the greater saving the organisation would have. If all these adjustments were made, they believed that the cycle time would be one month or even shorter.

According to (Barsky, 1999) the budgeting process should last about 2.5 months. According to (Williams, 2008) most companies devote four to eight weeks for the annual budgeting cycle. The respondents that disagreed (63%) support these statements that were made. The more involved the stakeholders are in the budgeting process, the longer the cycle will be. If the cycle time is shortened, the commitment and buy in of the lower levels will be lost or the budget will not align with the strategic plans that the upper levels have.

All the stakeholders need to be included in the budgeting process. Different levels needs to take responsibility and accountability for the budget. If the number of the stakeholders is decreased, the stakeholders that are excluded will feel undervalued and have no motivation for reaching the budgetary requirements. With slicing from the budgeting cycle time, communication and collaboration will not be as effective as what the organisation requires.

Respondents indicated that the cycle time is more than a month due to ensuring that the budget is done correctly and accurately. If there is any haste placed on setting up a budget or completing the budget, unnecessary errors will occur. Sufficient time should be spent in planning the budget and the budget process. Understanding the process thoroughly is imperative. A respondent commented with: “Get the budget right the first time around, so take the time that is needed to get the budget there.”

The finding of proposition 7 is found to be not true. The average cycle time should be more than one month.

6.9 Research Limitations

Interviewer bias is a possibility. The interpretation that the researcher has, might be different to the next researcher. This research was specifically explorative in nature and thus the sample size was not statistically significant.

It is acknowledged that the focus on the listed companies created the risk of sample bias and that the results could not be directly relevant to the total population of managers in South Africa. A potential sample bias by selecting only a few companies (limited sample). The research was conducted on these companies and results on non-interviewed companies might be different. In addition, the face-to-face nature of the interviews and the fact that they were recorded. Potentially prevented participants from freely elaborating on their opinions.

Chapter 7 Conclusion

7.1 Findings and recommendations

Budgets have been seen as a control mechanism in organisations in the past. The business and academic press continue to report on problems relating to the budgetary process in organisations. This research report investigated which factors of a budget process will influence the strategy positively in the implementation of the strategy in an organisation. The factors that were identified in the literature review are:

- The use of a balanced scorecard on a regular performance review process.
- Incentives that are linked to strategic business drivers in an organisation and the disabling of gaming behaviour.
- The effective communication and collaboration at all levels and the understanding of the budget process.
- An effective reporting technology that assists in the budgeting process.
- Driver based budgeting and forecasting, and the focus on critical drivers.
- Rolling forecasts.
- The cycle time for budgets and forecasting in an organisation.

In previous research studies, the dissatisfactions of the budgetary process were identified, but this excluded the impact that the budget process had on the strategic plans of an organisation. Other research was done on how strategy is done in organisations, but not which methods or instruments are used to implement strategy in organisations. This led to the question if budgets are a strategic enabler of strategy. This study investigated the experiences and the views of financial and non-financial senior managers and executives on the budgetary process factors that will influence the implementation of the strategic plan of the organisation. In order to minimise the risk of bias done by previous research, a qualitative research approach was taken in the form of semi-structured expert interviews (Remenyi and Williams, 1998).

The research was expected to highlight the different views of the different groups (financial and non-financial), and the different levels in an organisation (senior managers and executives) would have some similarities in responses. These similar responses are with regards to the different propositions or prompts from the interview guide during the research interviews.

While the actual results have met the initial expectations to some extent, there have been some surprises that emerged from the interviews and the participants' responses. There are different areas where management action is recommended and these areas were relating to the several propositions identified through the literature review in this research study. These recommendations are grouped in the different categories (according to the propositions) and will be discussed below.

7.1.1 The use of a balanced scorecard on a regular performance review process.

A balanced scorecard should be implemented in every organisation. The implementation should evolve naturally from the lower levels in the organisation so that the participants do not feel that it has been forced onto them. It should assist them to keep track of their goals and targets. These lower level scorecards will then roll up on the upper levels of the organisation. It will assist the organisation to stay aware of what the performances of the organisation are and the potential risks that might occur.

The scorecards should be adjusted to add value to the non-financial group. Currently the financial groups in the organisation utilises the balanced scorecard more. This can be the reason that it is comprehensible to financial employees, but not to the non-financial employees. The scorecard should be linked to the operations' activities to make it more comprehensible. Training or collaboration sessions need to be held with all the relevant parties, expressing the importance of the balanced scorecard and where the balanced scorecard might assist in their day-to-day operations and decision making.

7.1.2 Incentives that are linked to strategic business drivers in an organisation and the disabling of gaming behaviour.

Organisations that are linking their incentives to the budget performance, should link it to the strategic business drivers. This will disable any gaming behaviour in the organisation. Linking the incentives to the strategic business drivers will motivate the employees to perform or outperform their set strategic targets or goals. Most of the strategic drivers should be linked to the budget or business plan of the organisation. This link will ensure that if the strategic goals or targets are met, the budgetary requirements will be met. Through performing or outperforming the strategic goals and targets, the budget will inherently be reached or the financials will outperform the budget, thus the employees receive incentives.

7.1.3 The effective communication and collaboration at all levels and the understanding of the budget process.

Conduct training sessions to ensure that all employees that are participants in the budgeting process obtain the basic knowledge of what the standards of a budget are, and how to build the budget with the budgeting tool. The process should clearly be explained in different facilitation aids. Clearly state the assumptions or guidelines that will be given. Explain why the budgeting process and the budgets are important. This can be done through methods or case studies where organisations failed to do the budgets correctly.

Explain to all participants the flow of information regarding the budget process. Senior managers and executives participate in the setting of the targets through the strategic planning that should take place on the highest or the upper levels of an organisation. The standard of the budgets and budgeting process should be developed by the lower levels of an organisation. These standards should be tight, but attainable. The lower levels should start at the bottom layers and work their way upward to the application layer. The budget and the budgeting process should be reviewed and approved by the upper levels of the organisation.

7.1.4 An effective reporting technology that assists in the budgeting process.

Upgrade the organisations' technology if the organisation is still using Microsoft Excel spreadsheets. Turn this weakness into a strength. Different approaches for budgeting can be used. All these approaches create plans and decisions that need to be made. An organisation should use or create a plan or budget and a decision making tool that can assist in maximising the benefits of these plans and decisions in an organisation. Store all the organisations' information on one system. This gives all the participants the same view and will minimise any misunderstandings between the budgeting participants.

A good tool not only gives the organisation the flexibility to manage its costs and revenue at a desired level in the short and long term but this budgeting tool should also assist in the agility to change the budgets or forecasts with the changing business environment. Thus all the processing should occur in the budgeting tool. Through the ability of the system to keep up with the changes of economic factors and market changes, it will provide a competitive advantage because it will assist organisations to better execute and achieve their goals and targets.

7.1.5 Driver based budgeting and forecasting, and the focus on critical drivers.

All organisations should base their budgets and forecasts on the organisations' drivers. The organisations should also focus on the critical drivers that might influence the organisations financial performance. These drivers contain a level of risk and risk needs to be maintained in any organisation. Positive risk will create opportunities and negative risks can be seen as threats. With these types of risks involved and focusing on the drivers of the organisation, an organisation can utilise the opportunity, and increase their financial performance or manage the risk more effectively. Understanding the business and the drivers of an organisation is very important. This will assist the organisation with any 'what if' scenarios indicating the best and worst position of an organisation for the budget and forecast cycle.

7.1.6 Rolling forecasts.

A budget covers a fixed period of twelve months and will generally not change during the different periods. This causes the budget to be static. Budgets and forecasts also relate to long-term plans and planning processes. During these periods, regularly revised forecasts should be prepared next to the original budget. The budgeting process methodology does differ from the forecasting methodology, but the principles or the outcome (a report) will be similar. The rolling forecasts and the annual budget that is broken down in periods, will support the organisations' strategy.

Rolling forecasts or business plans that budget for a few years into the future need to be implemented in the organisation. This will provide the shareholders and the employees of the organisation with information on the performance and growth that can be expected in the future. This is also an indication to the employees that the organisation is a going concern and gives some level of job security. Rolling forecasts are also a method of motivation to the employees.

7.1.7 The cycle time for budgets and forecasting in an organisation.

The optimal cycle time should be from four to eight weeks as Williams (2008) suggested. Communications, business drivers and technology have a great impact on the length of the cycle time. If the organisation cycle time is longer than eight weeks, these factors should be optimised to reduce the budgetary cycle time. Another factor that can reduce the cycle time is to prepare the budget correctly and efficiently the first time around. A budget that moves frequently between the different levels of an organisation, creates frustration between the different levels and increases the length of the cycle time. The movement between the different levels should be limited to only a few rounds in the budgeting process.

7.1.8 Budgets and the use thereof.

Targets in an organisation are attainable with some extra effort by all the parties that are involved in the budgeting process. Budgets have usually more than one use in an organisation. Budgets can be used to motivate and reward the employees and the participants of the budget. Budgets can also assist in evaluating activities for planning and communication purposes.

7.2 Suggestions for future research.

This study provides an up-to-date, real world look at the budgeting practices and the influences that will create a successful strategic plan for an organisation with a sample of the South African Johannesburg Stock Exchange listed organisations. This study provides descriptive information about the current practices in budgeting with the budgeting factors that influence the strategic performance of an organisation, as well as the perceptions of experienced individuals as to the behavioural consequences of budgeting and the value of budgeting that is linked to the set of the organisations' objectives.

The research done here can be extended in several ways. Future research would be to examine the statistical relationship between budgeting practices and the financial performance variables (share prices and the returns for shareholders) in an organisation. This will provide evidence of a market's perception of different budgeting practices. The different budgeting practices can be researched even further through different organisations moving away from the budgeting process (beyond budgeting). This study will indicate the conditions under which such a move could be the result of the dissatisfactions of a traditional budgeting process.

Future research should examine the accounting practices and behaviours of organisations and how these practices or behaviours influences or affects the organisations' operating decisions. Accounting practices and behaviours that are implemented or used in organisations and the benefits thereof have great implications and impacts on the management of organisations and on the financial departments or teams supporting the organisation and the practices.

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Appendices:

Appendix 1 – Interview Guide

| | |
|------------------------------|--|
| Interview Guide | |
| Date: | |
| Interviewee/Participant Code | |
| Company Code/Name: | |
| Current Occupation: | |

1. **General:** What purpose does the budget and budget process fulfil in your company?
2. **Balanced scorecard:** How is the organisation using balanced scorecard?
3. **Gaming behaviour:** Are there any incentives linked to budget performance or business drivers?
4. **Communication:** What type and at which levels are communication and collaboration taking place to understand the budget process?
5. **Technology:** What type of technology is used during the process and is it user-friendly?
6. **Drivers:** Is your organisation using driver based budgeting and forecasting, and is the organisation focusing on critical drivers?
7. **Rolling forecast:** Is your company using rolling forecasts and what how many periods are they viewing?
8. **Cycle time:** What is the cycle time for the entire budget process in your company?
9. **Finishing question:** How can we do it better?

Appendix 2 – Consistency Matrix

| Proposition | Literature Review | Data Collection Tool | Analysis |
|--|---|----------------------|---|
| Organisations should use balanced scorecard on a regular performance review process. | (Libby and Lindsay, 2007) (Greenberg and Greenberg, 2006) (Thomson, 2007) | Prompt 2 | Content analysis on open ended questions, to determined how performance reviews occurs with balanced scorecards |
| Incentives should be linked to strategic business drivers in an organisation to disable gaming behaviour. | (Libby and Lindsay, 2010) (Uyar, 2009) (Miller and Galeaz, 2007) | Prompt 3 | Content analysis on open ended questions, to assess how the organisation links the incentives to business drivers |
| The organisation ought to have effective communication and collaboration at all levels and understanding of the budget process. | (Miller and Galeaz, 2007) (Thomson, 2007) (Greenberg and Greenberg, 2006) | Prompt 4 | Content analysis to determine who are involved and to which level the are they involved in |
| An effective reporting system that is user-friendly and functional should be implemented in the organisation and should assist in the budgeting process. | (Miller and Galeaz, 2007) (Rivera and Milani, 2011) | Prompt 5 | Content analysis to uncover the types of tools used and into which detail level the budgets are done |
| Organisations should be using driver based budgeting and forecasting, and should focus on critical drivers. | (Miller and Galeaz, 2007) (Thomson, 2007) | Prompt 6 | Content analysis on open ended questions, to determine what critical drivers are being used |
| Rolling forecasts should be implemented at the organisation and it should have a five quarter future view. | (Thomson, 2007) (Miller and Galeaz, 2007) | Prompt 7 | Content analysis to assess what the period for forecasts are and the interviews of the reviews on the |

| | | | |
|--|---------------------------|----------|--|
| | | | forecast |
| The cycle time for budgets must be one month and for forecasting one day | (Miller and Galeaz, 2007) | Prompt 8 | Content analysis on open ended questions, to determine the range and methods to reduce cycle times |

Appendix 3 – Research Companies and participants

| Company | Financial | Non-Financial |
|--|---|--|
| Aveng Limited | Financial Manager | Corne Claassen (Commercial Manager) |
| Investec Limited | Financial Manager | Fanie Fourie (Information Technology Manager) |
| Kumba Iron Ore Limited | Abel Pienaar (Financial Manager) | Operations Manager |
| Liberty Holdings Limited | Financial manager | Operations Manager |
| Murray and Roberts Holdings Limited | Financial manager | Operations Manager |
| Omnia Group (Pty) Limited | Noel Fitz-Gibbon (Chief Financial Officer) | Rod Humphris (Chief Executive Officer) |
| Stratcorp Limited | Henk Engelbrecht (Financial Director) | Operations Manager |
| Tsogo Sun Holdings Limited | Rob Huddy (Chief Financial Executive) | Marcel Von Aulock (Chief Executive Officer) |