AN EVALUATION OF THE MOST PREVALENT BUDGETING PRACTICE IN THE SOUTH AFRICAN BUSINESS COMMUNITY

By

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PRETORIA

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ABSTRACT

This study is based on a combination of existing theoretical knowledge and recently conducted empirical research. The analysis of knowledge that has come from the academic world has resulted in an extensive review of budgeting. The review starts at the inception of budgets in the nineteenth century, where it was just a tool to manage cost and cash flows. The study follows the trajectory of the evolution of budgeting from Traditional Budgeting practices that lasted for decades to, what is known today as, Better Budgeting.

The evolution of budgeting has been driven by the desire of organisations to mitigate business challenges which result from the economic volatilities of the day as well as to remain competitive. This desire to mitigate business challenges remains relevant today and demands that organisations be equipped with best practice management tools, systems and business processes.

In order to manage organisations effectively and efficiently, Management Accounting as a discipline is in a state of constant development. Over the years, a number of new innovations have been introduced in the field of Management Accounting. These include (but are not limited to) concepts such as Activity Based Costing (ABC), Activity Based Management (ABM), Activity Based Budgeting (ABB), Target Costing, Strategic Cost Management and Economic Value Added (Budgeting)(EVA™), Zero Based Budgeting (ZBB), Rolling Budgets and Forecasting (RBF), Balanced-Score Card (BSC) and Beyond Budgeting. These innovations aim to provide business managers with practical value adding solutions for a better understanding of the organisation's product or service costing and planning strategies. The focus of this study is on innovations relating to the planning strategies of the organisation. Innovations that relate to planning include: Activity Based Budgeting, Zero Based Budgeting and Rolling Budgeting and Forecasting.

The budget evolution is not short of academic value; researchers have conducted empirical surveys and have provided a theoretical perspective on the subject matter with fruitful findings. There appears to be a consensus regarding a total overhaul of Traditional Budgeting with the clear intention to move towards Better Budgeting. In the midst of this

continued research work, there has been an emergence of a radical view about budgeting. This radical view concerns pursuing an agenda that suggests that organisations must stop preparing budgets. The gist of this radical development can be summed up as the limitations presented by budgeting in organisations. This recent concept has been coined as Beyond Budgeting.

To remain globally competitive, South African organisations must keep abreast with the latest developments in management practices. This study therefore provides a good platform for South African organisations to obtain knowledge in what other countries are already doing around the subject of budgeting.

The study has a two-pronged problem statement. Firstly, do organisations still budget? Secondly, what do organisations feel is the future for budgeting? Are they keeping with Traditional Budgeting, moving towards Better Budgeting or rather going further and looking Beyond Budgeting? The South African business community is no exception to this global budget debate about Traditional Budgeting, Better Budgeting and Beyond Budgeting.

To gather evidence, the study made use of an online survey questionnaire that is attached as Appendix 2. An email invite containing an Internet hyperlink was sent to respondents. Respondents were expected to click on the hyperlink to gain access the pre-designed online survey questionnaire.

Upon the analysis of the results, it was concluded that the South African business community still relies on budgeting, with 90% of the respondents saying that budgeting is indispensable, as their organisations will not manage without budgeting. Furthermore, there was a clear-cut move from Traditional Budgeting towards Better Budgeting. The study also concluded that the move towards Better Budgeting is supported by the inability of Traditional Budgeting to keep up with the rapid changes in macro and micro-economic factors. Also interesting to note is the revelation that 0% of the respondents indicated that they had adopted and implemented Beyond Budgeting. This resistance by the South African business community to the adoption of Beyond Budgeting and the resulting slower

pace of this new practice's implementation is actually similar to the pace at which global organisations have received this radical budgeting practice.

Key Words:

Budgeting

Traditional Budgeting

Activity Based Budgeting

Zero Based Budgeting

Rolling Budget and Forecasting

Beyond Budgeting

Better Budgeting

Beyond Budgeting Round Table

South African Business Community

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PURPOSE, SCOPE AND METHODOLOGY OF THIS STUDY

1.1 INTRODUCTION

Is it the right time to bid farewell to budgeting as a long-standing management tool or is it the right time for a vigorous overhaul of Traditional Budgeting practises? The world has spoken - in literature and in practice - with the rich academic work done to date accompanied by a number of business surveys conducted predominantly in the US (Libby and Lindsay 2007), UK (Neely, Borne and Adams 2003) and Asia (Ahmad, Suleiman and Alwi 2003, Joshi, Al-Mudhaki and Bremser 2003). The bone of contention in the existing budgeting debate is the relevance of conventional budgeting in today's volatile economic environment. Evidence exists that there are medium-large organisations that have switched to Beyond Budgeting. However, the empirical findings by Libby and Lindsay (2007:48) suggest that Beyond Budgeting has not been fully embraced especially in the US. The advocates of Beyond Budgeting, Hope and Fraser (2003a:109) suggest that, in the absence of budgets, every part of the company is judged on how well its performance compares with its peers and against world-class benchmarks.

Libby and Lindsay (2007:48) suggest that there are still a large number of organisations relying on budgeting as a management tool despite its shortcomings. The question that needs answering is what trajectory the South African business community has adopted in this budgeting dichotomy? Preparing budgets is an important function in all organisations, as it compels a prognosis about future needs and developments that may be difficult to predict and control (Morse, Davis & Hartgraves, 1972:198). A budget is an agreed-upon plan, expressed in financial terms, against which performance is to be realised in the future, as well as measured and compared (De Waal, Hermkens-Janssen & Van de Ven, 2011:316). Horngren, Foster and Datar (2006:181) claim that budgets are a major feature of most management control systems.

Since the nineteenth century, budgeting has evolved. Budgeting used to be just a tool to manage costs and cash flow in large industrial organisations such as Depont, General Motors, and Siemens (Hope & Fraser, 2003b:13), whereas nowadays it is a vital management tool that reflects a snapshot of the organisation's desired future operations. The salient feature in the budgeting debate, in literature and in practice, may be around the applicability of conventional budgeting practices in today's turbulent economic environment.

The critics of conventional budgeting suggest that the budgeting process is out of date and dysfunctional (Neely, Bourne & Adams, 2003; Hope & Fraser, 2003a; Horváth & Sauter, 2004). The literature, as presented by the critics of budgeting, reveals that: "Traditional Budgeting practises are too time-consuming and costly; unresponsive to today's competitive and turbulent environment; they are counterproductive in that they are usually affected by gaming, corporate politics and horse-trading tactics and they can take up to 20% of management's time" (Neely *et al*., 2003:22).

The budget evolution has seen a number of developments in budgeting practices, this evolution may have been to make budgeting more efficient, effective, and more ethical. The modern budgeting practices may also be referred to as Better Budgeting. Over the years, there has been an introduction of budget innovations aimed at providing a budgeting system that adds more value. This study will concentrate on three budget innovations: (i) Activity Based Budgeting (ABB), (ii) Zero Based Budgeting (ZBB) and (iii) Rolling Budgets and Forecasting. It is the view of this study that the selected budget innovations provide sufficient solutions in addressing the shortcomings presented by Traditional Budgeting.

The developments in budgeting have seen an emergence of a movement that has raised questions about the future of budgeting. Evidence exists that some organisations have simply gotten rid of the term budgeting from their corporate vocabularies (Neely *et al*., 2003:22).

The Beyond Budgeting Round Table (BBRT) movement is an organisation that introduced the concept of Beyond Budgeting. Although the BBRT originated in the UK, it has members from many countries including Belgium, France, Germany, Holland, Norway, South Africa, Sweden, Switzerland and the US (www.bbrt.org). This organisation emerged in the 1990s and has relentlessly and passionately pursued the belief that budgeting has no place in the information age. The BBRT advocates that organisations could improve their performance by abandoning budgeting altogether. However, most of those that have abandoned budgeting are a cluster of Scandinavian companies – including Svenska Handelsbaken, Borealis and Skandia. These organisations have adopted a concept called Beyond Budgeting (Neely *et al*. 2003:26). Neely *et al.* indicate that organisations such as Shell, BP, AstraZeneca and Ford are beginning to move away from Traditional Budgeting practise.

Neely *et al. 2003,* Hope & Fraser, 2003a andCentage/IOMA, 2007 in their individual research work indicate that the reason behind the dissatisfaction about budgeting relates to the shortcomings or inability of conventional budgeting to meet the demands of today's volatile business environment. There are two conflicting views, both supported by researched evidence, reflecting the prevailing budgeting practices adopted by different organisations, i.e. Better Budgeting versus Beyond Budgeting. In line with the global trend, this study seeks to evaluate the most prevalent budgeting practices in the South African business community.

The manner in which empirical data is gleaned from the South African business community is through an emailed electronic survey questionnaire. The target population consists of both private and public companies. This study defines the South African business community as a South African juristic person incorporated in terms of the Companies Act 71 of 2008 (www.justice.gov.za/legislation/acts/2008-071amended).

1.2 PROBLEM STATEMENT

Over the years, managers and practitioners have expressed their dissatisfaction with budgeting. Consequently, there is a growing propensity towards rethinking or even eradicating conventional budgeting, which has long been valued as an effective means of corporate management.

Academic researchers such as (Libby & Lindsay, 2007; Centage/IOMA, 2007; De With & Dijkman, 2008)have conducted research in the interest of addressing the shortcomings of conventional budgeting. The academic work reveals two distinct views on budgeting. The first is the view that suggests maintaining and improving budgets by incorporating recent developments in budget practices in order to achieve Better Budgeting. The second is the view that suggests a radical alternative, namely Beyond Budgeting, suggesting a complete eradication of budgeting.

The problem statement as identified by this study is two-pronged. Firstly, do organisations still budget? Secondly, what do organisations feel is the future of budgeting – is it Traditional Budgeting, Better Budgeting or Beyond Budgeting?

1.3 PURPOSE STATEMENT

The main purpose of this study is to investigate the most prevalent budgeting practice in the South African business community regarding Traditional Budgeting, Better Budgeting and Beyond Budgeting. The study aims to prove that the appropriate business environment is one where managers need to be more agile, innovative and ethical. The study is of the view that Better Budgeting can provide an appropriate business environment. It is also the purpose of this study to test the general acceptance, or not, of an alternative to budgeting, i.e. Beyond Budgeting.

1.4 RESEARCH OBJECTIVES

Hope and Fraser (2003a:110) indicate that a fair number of companies, though concentrated, have in fact abandoned budgeting. On the contrary, Libby and Lindsay (2007:48) suggest that there are still a large number of organisations relying on budgeting as a management tool despite its shortcomings.

This study aims to evaluate the most prevalent budgeting practice in the South African business community. A survey is conducted with the goal of achieving the following research objectives pertaining to budgeting practices in the South African business community. The objectives are:

- Determine how many times budgets are prepared per year and how those budgets are subdivided.
- Determine whether operational budgets support the organisation's overall business strategy.
- Determine the approach adopted by organisations in setting budget targets.
- Investigate the budgeting practices of the South African business community according to the size and sector of the business.
- Evaluate the value of budgeting in relation to productivity, innovation and performance management.
- Identify the budget value-add in an organisation with regard to planning, coordination, communication, motivation and evaluation of operational activities.
- Evaluate the future of budgeting.
- Evaluate how budgets influence organisational behaviour and business ethics.
- Evaluate the shortcomings presented by budgeting.

1.5 ACADEMIC VALUE AND CONTRIBUTION OF THE PROPOSED STUDY

The existing evidence was gained by different scholars through surveys in businesses of different sizes, types and cultures, as well as from practitioners (Libby & Lindsay, 2007; Centage/IOMA, 2007; De With & Dijkman, 2008). The research confirms that decisions need to be made between Traditional Budgeting, Better Budgeting or Beyond Budgeting. Libby and Lindsay (2007:51) conclude in their research that existing evidence support the view that problems exist with budgeting systems in some companies. However, research also suggests that the claims that budgets are fundamentally flawed are probably overstated. According to the Centage/IOMA, there are two main points: (i) dealing with other managers in the company (ii) working with spreadsheets. De With and Dijkman prove that Dutch CFOs are very satisfied with their budgeting practices.

Neely *et al.* (2003:23) suggest that the overall predominant theme in the literature is that the planning and budgeting processes traditionally used in many organisations fail to deliver results. Budget shortcomings are real, and the improvement thereof is critical. Nowadays, the survival of an organisation lies within its agility to responding to economic and market volatility, that which defines the competitive edge in organisations.

Business globalisation demands that South African business managers equip their organisations with best practice management principles. This study goes a long way to present current trends in the global arena. It will also serve as a blueprint that is available for South African practitioners and managers to use when determining the best practice for their organisations. This study uses a sample comprising South African companies in different industries of different sizes that will indicate what the prevalent budgeting practice in South Africa is.

1.6 RESEARCH METHODOLOGY

The research method consists of a literature review and an empirical study. The sections below describe both.

1.6.1Literature review (List of References)

Budgeting is one of the most researched topics in management accounting, both from a theoretical and practical perspective (Covaleski, Evans, Shields & Luft, 2003:3). Since the nineteenth century, budgeting has evolved from a treasury carry bag to what is knowntoday as a snapshot of desired future operations. This evolution has seen a number of developments in budgeting practices in the wake of making budgeting relevant to market conditions that are both ethical and effective.

In addition to this evolution, there has been a development aimed at the dispensing of budgeting altogether. This view is mainly driven by the BBRT. At the heart of their argument for the eradication of budgeting lie the principles of Traditional Budgeting.

This study aims to provide an in-depth analysis of the Traditional Budgeting, Better Budgeting and Beyond Budgeting practices with a view to ascertain the most prevalent practice in the South African business community.

1.6.2Empirical study

After a thorough review of research methodology textbooks (Leedy & Ormrod, 2005 and Saunders, Lewis & Thornhill 2009), the preferred mechanism to conduct a survey was by the use of a questionnaire. The questionnaire was published on the Internet and the respondents were invited by e-mail to participate. Upon receipt of the email, respondents just had to click the link and complete the 10-minute questionnaire.

Design. This study was a descriptive research study. The research methods used in this research design were structured and quantitative. A survey was used to gather information by means of an e-mail questionnaire.

Population. The population is randomly selected across different organisations operating in South Africa. The email questionnaire was sent to as many as possible organisations for participation. Provision was made for the testing of the significance in differences in the perception of respondents at various levels of seniority in the company hierarchy. In the survey research, targeted respondents assume the role of a key informant and provide information on an aggregated unit of analysis by reporting on organisational properties rather than personal attitudes and behaviours. The targeted respondents are experienced financial personnel at different levels of seniority. The criterion to qualify as an experienced financial person in this study requires that the employee completing the survey has a:

- three year accounting/financial degree or diploma with three years of consecutive relevant experience;
- degree/diploma other than in accounting/finance with at least five years of consecutive relevant experience.

Relevant experience is defined as practical experience in the budgeting process. It is not necessary for a targeted individual to have acquired all the practical experience within the same organisation.

Data analysis. The analysis of qualitative data is aimed at the examination of that data from various angles to construct a rich and meaningful picture. Saunders, Lewis and Thornhill (2009:480) define qualitative analysis as all non-numeric data or data that has not been quantified and can be a product of all research strategies. They further state how it is possible to approach data collection and analysis from either a deductive or an inductive perspective. Where the research commences using a deductive approach, it seeks to use existing theory to shape the approach adapted to the qualitative research process.

This study uses a deductive approach, which uses the existing theory to shape the direction of the research. Budgeting is a very well researched concept with rich academic theory and has been in practice for decades. Recent studies conducted on budgeting have been based on its existing theory with varying views on its application. This is evidenced in the recent studies by De With and Dijkman (2008), Centage/IOMA (2007), Libby and Lindsay (2007), Horváth and Sauter (2004), Hope and Fraser (2003a), and Neely *et al.* (2003). Similarly, this study uses the existing budget theory as a base and investigates the budgeting practices in the South African business community. This approach perfectly links the research into the existing body of knowledge in the subject area.

1.7CHAPTER LAYOUT

Chapter one is aimed at introducing the topic and providing the background. It draws information from the literature and findings from empirical research that has been conducted on a similar subject. It commences by asking a somewhat unprecedented question in the history of budgeting. The very existence of budgeting is in the spotlight against a backdrop of two distinct views around the subject matter: one advocates the eradication of budgeting while the other calls for an overhaul. At the centre of budgeting, is its ability and practicality in dealing with the economic challenges of today. The chapter provides a background to the study, the problem and purpose statement, the research objectives, academic value and contribution, the research methodology and lastly the definition of key terms.

Chapter two delves into the theoretical aspect of budgeting. It analyses what is already available in the literature. Substantial evidence exists in the literature suggesting that Traditional Budgeting practices have become out of date given the rapid nature of today's economic environment. This chapter is therefore dedicated to the theoretical analysis of the concept of budgeting and its characteristics. Some time is spent on Traditional Budgeting practices as the point of departure to contemporary practices.

A value proposition is made to the South African business community. Chapter three proposes that Better Budgeting is the solution. This proposal has its basis on the existing contemporary budgeting practices such as ABB, ZBB and RBF. The aforementioned budget practices allow organisations the flexibility and ability to counter economic challenges for them to remain competitive. The chapter also provides an analysis of a radical development in management accounting. This is the Beyond Budgeting practice advocated by the BBRT movement. The BBRT movement has conducted thorough research in favour of the Beyond Budgeting concept.

Chapter four discusses the critical success factors to be considered in implementing a budget program and are dedicated to human behaviour in budgeting. Human behaviour is a critical factor that has a potential to make or break the implementation of any management tool implementation if not managed properly.

Chapter five spells out the research methodology adopted by this study. It provides a description of the inquiry strategy and broad research design. It details the sampling, data collection and data analysis methodology. The research methodology is adapted from existing literature (Leedy & Ormrod, 2005 and Saunders, Lewis & Thornhill 2009).

Chapter six contains an analysis of the results from the empirical research. The results are reviewed in line with the research objectives with a view to respond to the research problem.

Chapter seven is a conclusion to the study and provides a summary of the salient features of the study. The study presents the research problem as well as the research objectives to establish if the study achieved what it desired.

1.8 DEFINITION OF KEY TERMS

The following table sets out the abbreviations and key terms that are used in this document.

Table 1.1: Abbreviations and acronyms used in this document

Abbreviation/Acronym	Meaning
ABB	Activity Based Budgeting
ABC	Activity Based Costing
ABM	Activity Based Management
AMACOM	American Management Associates
APQC	The American Productivity and Quality Centre
BBRT	Beyond Budgeting Round Table
CAM-I	Consortium for Advanced Manufacturing-International

Centage/IOMA	Budgeting Survey, Benchmarks and Issues
CFO Publishing LLC	CFO Publishing LLC is an award-winning media business that reaches over 400,000 corporate executives in the United States.
CFO Research Services	CFO Research Services is the sponsored research arm of CFO Publishing.
Abbreviation/Acronym	**Meaning**
CIMA	Chartered Institute of Management Accountants
ERP	Enterprise Resource Planning
EVA™	Economic Value Added
ICEAW	Institute of Chartered Accountants in England and Wales
MBO	Management by objectives
RBF	Rolling Budgets and Forecasting
South African Business Community	South African juristic person incorporated in terms of the Companies Act 71 of 2008
ZBB	Zero Based Budgeting

CHAPTER 2

BUDGET THEORY AND TRADITIONAL BUDGETING PRINCIPLES

2.1 INTRODUCTION

Is it Traditional Budgeting, Better Budgetingor Beyond Budgeting?The evolution of budgeting has been necessitated by an organisational desire to positively respond to macro and micro-economic environmental challenges.Budgeting has been in existence since the nineteenth century. Today, it remains a valuable management tool and a cornerstone in a number of organisations.However, the value of budgets and budgeting practices has been the subject of some debate over the past few years.

Hope and Fraser (2003a:108) suggest thatthe way budgets are used by most corporations should be abolished.On the contrary, Libby and Lindsay (2007:51) offer evidence to prove that senior accounting and finance managers find the overall budgeting processto be more helpful than harmful; and that there is a perception that oprtational managers could not function well without budgets.This chapter commences by detailing the process that gives rise to budgets.The process begins with the organisation setting its strategic objectives, which are mostly long-term.These strategic objectives are broken down into smaller packages or programs and converted into short-term targets.

The reality is that organisations are complex and unique in size, type and culture.Therefore, the need and benefits for budgeting will often differ from one organisation to another.This study has identified the following four elements as those that characterise organisations and make themdifferent from one another.

1. *Macroeconomics.*Different organisationsrespond to different business environmental factors. For example, organisations that operate within domestic markets face different challenges to those that operate in an import and export market.The business variables relevant to organisations in the import and export market may includeexchange rate fluctuations, global commodity prices and transportation availability, while organisations operating domestically may be affected by seasonal cycles, local

government regulations and price wars.Therefore, organisations naturally respond to market conditions relevant to their particular organisation.Consequently, strategic planning and budgeting becomes unique to certain organisations.

2. *Human Capital.* This element speaks of the quality and management astuteness of management.The human capital strength or capacity will always differ from one organisation to the next.
3. *Technology*. This refers to the use of different technology and accounting systems i.e. ERP.
4. *Financial strength.*The financial element relates to the financial position and strength of an organisation.Some organisations can afford state of the art technology to run their budgets while some have to makedo with Excel spreadsheets.

This study discusses the benefits, limitations and behavioural aspects of budgeting within the background of the elements that make organisations unique.It analysesTraditional Budgetingpractices and highlightstheir most cited weaknesses.Despite the vast evidence presented by research studies about the shortcomings of budgeting, a large number of organisations still rely on budgeting(Libby &Lindsay, 2007:48).Thischapteralso looks at the possible reasons why organisations have not already overcome these shortcomings.

Recent developments in budgeting practices are briefly introduced, i.e. ActivityBased Budgeting, ZeroBased Budgeting and Rolling Budgets and Forecasting.An alternative to budgeting is a recent concept called Beyond Budgeting.The chapter briefly introduces the Beyond Budgeting concept.

The chapter concludes by acknowledging the challenges posed by Traditional Budgeting, but also highlightsthe need to move towards Better Budgeting.

2.2 DEFINITION OF BUDGETS

Budgets originatefrom a*strategicplanning process.*They reflect a short-term version of long-term objectives. According to Drury (2004:549), budgets are concerned with the implementation of the long-term plan for the year ahead.The author continues by suggesting that abudget is not something that originates"from nothing"each year – it is developed from within the context of on-going business and is ruled by previous decisions that have been taken within the long-term planning process.

Henderson (1989:39) defines strategy as a "deliberate search for a plan of action that will develop a business's competitive advantage and compound it".He further explains this process by saying, "For any company, the search is an iterative process that begins with the recognition of where you are and what you have now".Ackoff, as quoted in Drury (2008:351), defines planning as the design of a desired future and of effective ways of bringing it about.

The strategic planning process entails the collection of macro-environmental data, forecasts, modelling and constructions of alternative future scenarios.In defining the concept of budgets, it is imperative to start byexplaining the strategic planning process.Horngren*et al.*, (2006:181) illustrate thelinks between corporate strategy and budgets in Figure 2.1.The strategy documentdeveloped and driven by top management provides the direction of the organisationand is the base document of all plans, i.e. strategic and operational plans.

Figure 2.1:Strategy, planning and budgets

Source: Adapted from Horngren*et al.,* (2006:181)

Generally, organisations start with a mission and vision statement, followed by the development of strategic objectivestodefine the desired future of the organisation. Pearce, Freeman and Robinson (1987:658) define a formal strategic plan as the process of determining the mission, major objectives, strategies and policies that govern the acquisition and allocation of resources to achieve organisational aims. They also point out that when the term formal strategic planning' is used, the intent is to convey that anorganisation's strategic planning process involves the explicit systematic procedures needed to gain the involvement and commitment of those principal stakeholders affected by the plan. From there on, the same strategic objectives are broken down into detailed milestones or operational plans.

Figure 2.2 depicts the generic strategic planning cycle among the oil majors. Without going into too much detail, the point is to highlight the links between setting strategic objectives at the beginning of the process to the drafting of business plans, aligning with the corporate office through discussions, making necessary adjustments and revising business plans. Once this process is complete, annual budgets can be prepared. However, this is not the end, as the same annual budget still needs to go through board approval to ensure its alignment with corporate strategy before performance targets can be set.

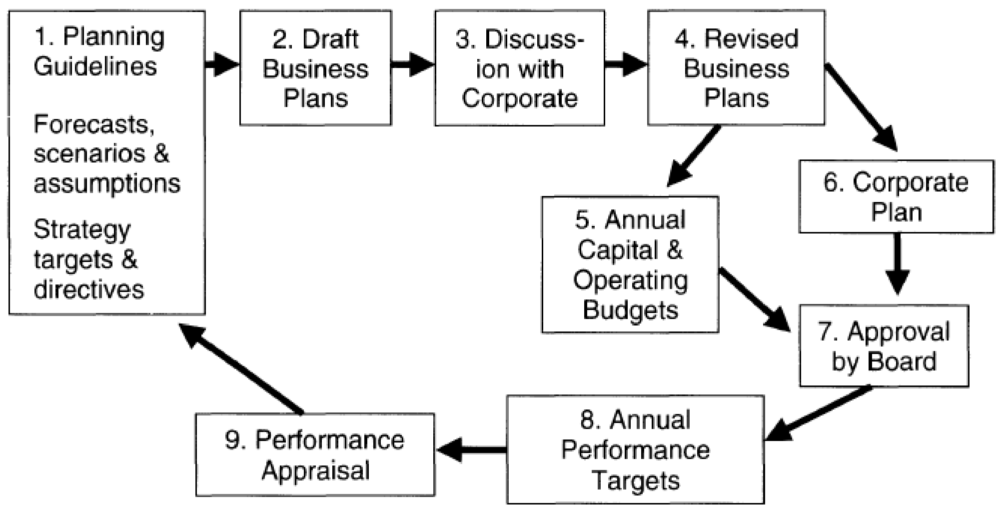

Figure 2.2:Generic strategic planning cycle among the oil majors

Source: Grant (2003:491-517)

To this end, the chain shows that the strategic planning process consists of a range of linksbetween long-term strategic objectives and both mid-term and short-term objectives.As stated by Grant (2003:491), the short-term budget spans over twelve months, the mid-term budget spans over three to five years and both are derived from the long-term budget that spansover more than ten years.Therefore, a budget is merely the operationalisation of the organisation's future desired plans.Alternatively, it can also be seen as the quantitative expression of a proposed plan of action by management for a given period.This short-term plan serves as a coordinating mechanism between the organisation's business units and it promotes robust communication within the organisation.

To conclude, Venkateswaran and Son (2005:4398) say that strategic decisions have a direct link with tactical decisions.Generally, the strategic issues, which are related to the macro-environment,are forward-looking in nature andare significant to achieveresponsiveness to market changes. However.this is not adequately reached without achieving responsiveness at the tactical level.Therefore, operational efficiencies may have a big impact on the strategic level.

2.3 STAGES IN THE PLANNING PROCESS

To briefly provide a picture of the budgetary process, the study takes a look at the overall general framework of planning, decisionmaking and control.The framework illustrated in the figure below, as adapted from Drury (2008:353),represents the role of long-term and short-term planning within the overall planning and control process.

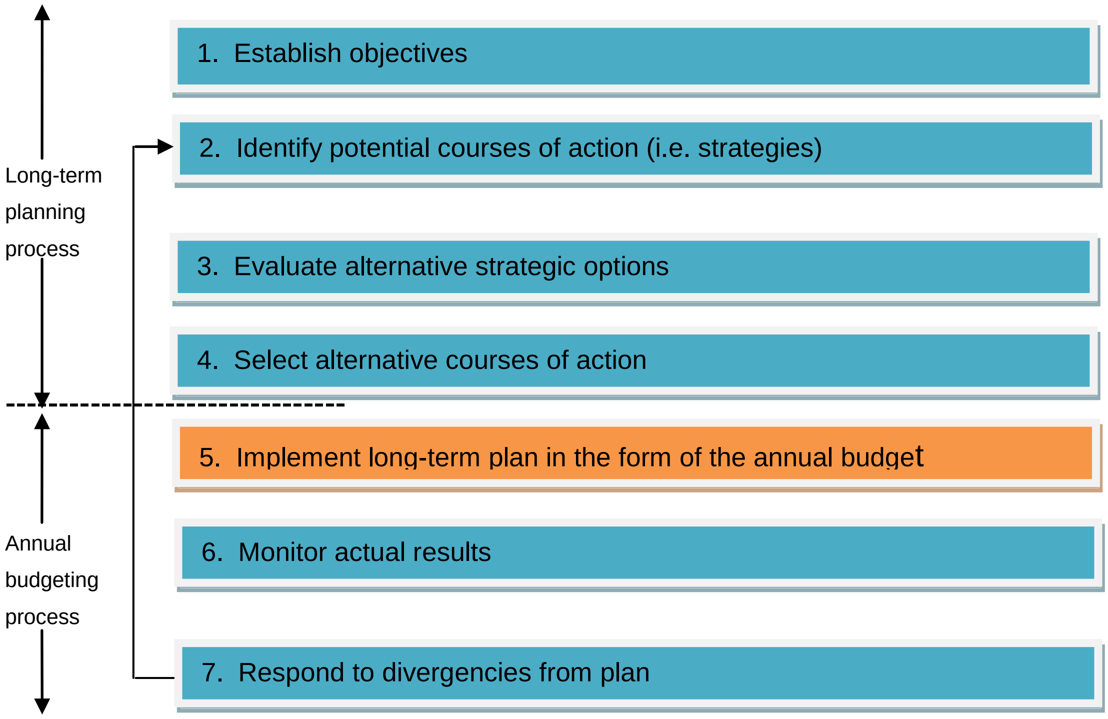

Figure 2.3: Role of long-term and short-term planning within the planning, decision-making and control process

Source: Adapted from Drury (2008:353)

Figure 2.3is a general iterative process that is usually used in planning, decision-making and control.The point of emphasis, for purposes of this study, is planning.The figure reflects a vigorous process that top management is to go through before selecting the best course of action.Therefore, long and short-term plans should reflect the organisation's best direction.In reality, planning for the long-term is inherently riskier; in the sense that the organisation itself is in a state of flux.As much as the process is thorough in nature, the fact remains that the input is only an estimate.Therefore, the longer timeframe may increase the risk of accuracy on the economic estimates as inputs in the plan. This risk may be owing to the economic volatility. This may be the reason organisations prepare short-term plans in the form of annual budgets.Drury (2004:549) confirms that budgets are concerned with the implementation of the long-term plan for the year ahead.This may be because the shorter planning horizon is more precise and detailed.To conclude, the above figure ties budgets directly with corporate strategy.

2.4 UNIQUE FACTORS OF ORGANISATIONS

Organisations perform budgeting to fulfil their individual business needs.Consequently, the degree to which budgeting succeeds in organisations varies significantly.This is because organisations are characterised by differences in size, sector and culture. Therefore, the complex nature of an organisation requires that an individual organisation prepare budgets that are appropriate to that particular organisation.Figure 2.4depicts four elements identifiedby this study that need to be considered in assessing the success of budgets.

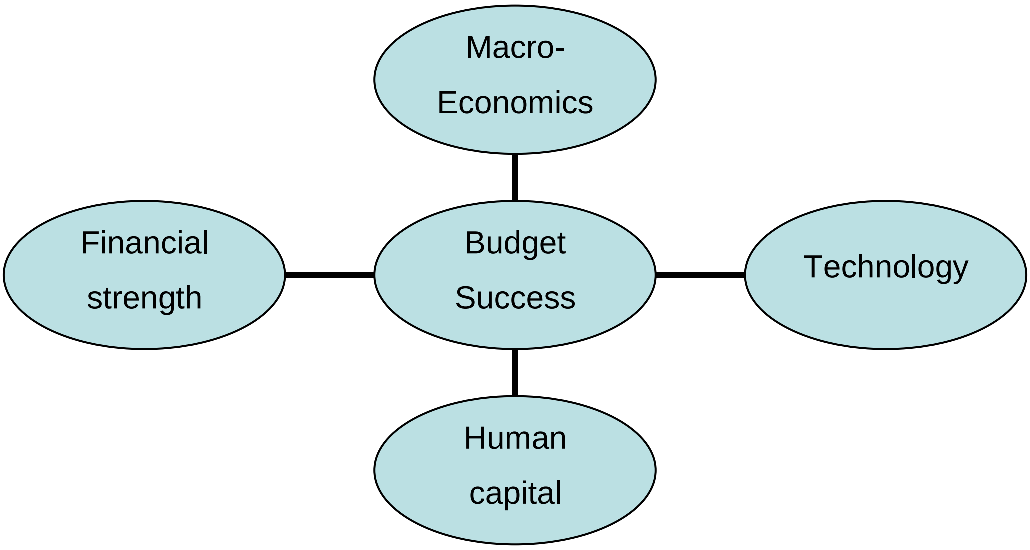

Figure 2.4:Elements to be considered when planning to implement a newinnovation
Source: Author’s own

2.4.1Macro Economics

There are critical external and uncontrollable factors that an organisation needs to incorporate in their planning process. They are mostly organisation specific and they include: competition, customers, suppliers, market regulations, price wars etc. These business variables necessitate unique or organisation-specific attention. The unique nature of organisations requires a thorough selection and customisation process of management tools. Likewise, budgeting innovations are adopted by organisations for specific purposes

2.4.2Human capital

The delivery of a successful innovation in an organisation depends on the quality of the human resources driving it.Therefore, the organisation has to ensure that management and general workers are appropriately trained and equipped to run with the innovation.

2.4.3Technology

This element refers to the accounting system used by an organisation to support the new budgeting practice or any other management innovation.Affordability levels differ for organisations, therefore investment appetite tends to set organisations apart.For an organisation to reap the full benefits of the innovation, it has to procure the latest technology available to drive the system.

2.4.4Financial strength

Generally, organisations make investment decisions based on a cost benefit analysis.The size of an organisation normally talks to the financial strength of that organisation.Therefore, it is likely that larger organisations would have much more financial strength than smaller organisations.Larger organisations would tend to allocate more funds on innovations compared to smaller organisations.

2.5 BENEFITS OF BUDGETING

Budgets have been in existence for decades and, to date, budgets are still widely used.Budgets remain in existence since organisations realise enormous benefits from a budgeting program.Budgets are there to represent a plan for the future expressed in formal quantitative terms.Garrison and Noreen (2003:374) explain that the act of preparing a budget is called budgeting, and the use of budgets to control organisation'sactivities is known as budgetary control.Theyidentify six advantages of having budgets as follows:

Table 2.1: Benefits of budgeting

No.	Benefit	Description

1	Communication	Budgets provide a means of communicating management's plan throughout the organisation.
2	Forward thinking	Budgets force managers to think about and plan for the future.In the absence of the necessity to prepare a budget, many managers would spend all of their time dealing with daily emergencies.
3	Resource allocation	The budgeting process provides a means of allocating resources to those parts of the organisation where they can be used most effectively.
4	Bottlenecks	The budgeting process can uncover potential bottlenecks before they occur.
5	Coordination	Budgets coordinate the activities of the entire organisation by integrating the plans of the various parts.Budgeting helps to ensure that everyone in the organisation is pulling in the same direction.
6	Benchmarks	Budgets define goals and objectives that can serve as benchmarks for evaluating subsequent performance.

Source: Garrison and Noreen (2003:374)

It is suggested by this study that when managers and employees feel certain about the future direction of the organisation, they may generally be satisfied. To this end, the budgeting process provides the prognosis of management's desired future plans. Also, the budgeting process involves all business units within the organisation, this may allow another benefit of cross-business-unit-visibility.

2.6 BEHAVIOURAL ASPECTS OF BUDGETING

The previous section of this chapter presented the benefits of budgeting. Ideally, it would be every organisation's wish to reap all the benefits optimally, but of course, that would require optimal cohesion from all resources i.e. all levels of management as well as business units working exactly as expected.Unfortunately, the real world does not practically allow for such an environment.Conflicts will arise and those involved in the budgetary process need to be aware of the behavioural aspects in order to maximise the good points and minimise the problems.

The behavioural aspects are summarised by Weetman (2006:351) as relating to motivation, participation, feedback, group effects, budget slack and the politics of the organisation. These aspects are described below.

2.6.1 Motivation

Budgets may be used to motivate employees and business unit managers to achieve set targets, but when used inappropriately, budgets may dampen motivation. Weetman (2006:351) claims that if targets are set with care, individuals should be motivated to achieve those targets. The process of setting the targets and ultimately the general feeling about budget targets becomes crucial. Managers may view budget targets as easy, moderate or difficult to achieve. In this sense, the manner in which managers behave or react may largely depend on how these managers perceive the budget targets.

Weetman (2006:351) continues by suggesting that many employees can achieve relatively easy targets; however, some employees may not feel motivated by that level of evaluation of performance. If the targets are moderate or even difficult, it will be a stronger motivation for some individuals to achieve those targets, while others will fail and will become despondent. The despondent group may decide to cease their efforts because the targets are too difficult.

It is important that budget targets are accepted by the individuals involved. In that context, budget targets should be at the difficult end of the range, by way of creating a challenge, but should be seen as attainable (Weetman 2006:351). The views of Weetman echo the need for budget participation among all levels of management during the budgeting process.

2.6.2 Participation

With regard to participation, Weetman (2006:352) draws on psychology to understand the behavioural aspects of budgeting. The author says that research into behavioural aspects of budgeting has included psychological studies of the individuals participating in the budgetary process. The author has found that it can be argued that individuals have needs for a sense of belonging, a sense of self-esteem and a sense of personal fulfilment. Most importantly, these needs do not necessarily have to be provided through remunerated employment or self-employment. However, they could be achieved through charitable work or dedication to a particular way of life.

According to Weetman (2006:352), participation is one way of meeting the above-mentioned human needs and therefore participation in the budgetary process is a significant aspect. The participation in the budgetary process enhances the sense of ownership of the process, since individuals are involved in the process from beginning to end. It enhances self-esteem through having a defined role in the process and finally leads to a sense of personal fulfilment through the successful implementation of the budget plan.

2.6.3 Feedback

Budgetary control takes place when an organisation evaluates actual performance against set budget targets. Such feedback normally comes in the form of variance analysis reports. According to Weetman (2006:352), feedback is only effective if it is provided in the short-term. Therefore, for variance feedback to be effective, it should relate closely to the responsibility level of the individual. This also helps in encouraging remedial action. The negative aspect of feedback is that some individuals may regard it as criticism of their work. Therefore, organisations need to be very careful when communicating negative feedback.

2.6.4Group effects

The impact of the budgetary process on a group of persons may be quite different from the impact on the individual within the group (Weetman, 2006:353). People who belong to a group become effective in contributing to the group’s objectives if they are made to feel comfortable and important in that group. Therefore, the success of a group lies with the successful management of group dynamics. Well-managed groups show cohesion, which will only be increased by participation in the budget process. The opposite is true, as disintegrated groups will likely fail to achieve group targets. It therefore may become important for management to analyse the composition of groups within the organisation carefully.

2.6.5 Budget slack

Where budgets are used to measure performance, the managers who set those budgets may be tempted to build in some element of spare resources that allows a lapse from actual high levels of performance without deviating from budget targets (Weetman, 2006:353). According to Chow, Cooper and Haddad (1991:47), budget slack is the intentional biasing of performance targets below their expected levels. Apart from the deliberate creation of slack, unintentional errors are also possible. Organisations therefore may have to ensure a high level of integrity from their management as well as good organisational behaviour.

2.6.6Politics of the organisation

Irrespective of the type of entity, it is almost inevitable that there will be a political aspect to an organisation’s management structure (Weetman 2006:354). Weetman defines the word "politics" as referring to a power struggle within the organisation. The example provided by Weetman is that a power struggle could take place if labour unions seek to impose their will on management. It may be visible within the board of directors or between business units. Weetman mentions that whatever the nature of the power struggle, it is evidenced in the budget process where various units of the organisation are engaged in rivalry over the formulation of the budget. The South African mining sector experienced this phenomenon during August and September 2012 when employees went on strike with wage demands outside the signed agreements. The company ended up signing amended wage agreements, which added 14% to the company's wage bill (Odendaal, 2012). This forced increase in the labour cost by the company was not budgeted for and will likely result in undesirable financial implications.

2.7 LIMITATIONS OF BUDGETS

The limitations presented by the use of Traditional Budgeting practices have enjoyed a rich response inliterature(Hope and Fraser (2003a), Horváth and Sauter (2004), Daum (2005), Neely, Sutcliff and Heyns (2001)) .In an article that is primarily based on a practical research study, Neely, Sutcliff and Heyns(2001:6–8) summarise the limitations regarding the use of budgeting in practice in the 12 points listed below:

2.7.1Budgets are time consuming and costly to put together

According to Neely *et al.,*(2001:6), the budgeting process is said to consume between 20 and 30 percent of management time in many organisations. Depending on the size of the organisation, a process that takes so much time of the core business may have a negative impact on the overall performance of the organisation. In this environment, budgets maybe viewed as adding little value, especially given the time required to prepare them.

According to Horváth and Sauter (2004:9), senior managers spend about 10 to 20 percent of their time on budgeting, while finance-planning departments spend as much as 50 percent of their time on it. The study conducted by Hackett Benchmark Group in Table 2.2 reflects that enterprises spend on average up to 25 000 person days on planning and performance measurement per US$ 1 billion turnover. It should be noted that this study was conducted in 2001 (12 years ago) and numbers could be quite different now.

Table 2.2: Planning and budgeting data from the Hackett Benchmark Group

Description	Upper quartile	Mean	Lower quartile
Person days per billion $ sales	6,077	25,000	28,592
Months to develop strategic plans	3	5	6
Months to develop financial plans	3	4	6
Reporting resource (person days)	6.1	11.2	28.6
Line items in financial plans	40	90	250

Source: Adapted from Neely*et al.,* (2001:8)

Given the date in the above table 2.2 it may be suggested that the amount of time taken by Traditional Budgeting is not viable. This time may be spent better on the analysis of information rather than spending so much time in preparing the budgets.

2.7.2 Budgets contain responsiveness and flexibility and are often a barrier to change

The nature of fixed annual budgets may make it difficult for organisations to respond swiftly to market changes. This becomes a barrier to continuous improvement and success. Neely *et al..* (2001:6) claim that there is rarely an opportunity to amend budgets as circumstances change; and incentives to outperform budgets significantly are non-existent.

2.7.3Budgets are rarely strategically focused and often contradictory

Budgets are likely to encourage short-termism at the expense of strategic and forward thinking in that managers will be encouraged to focus on this year's budget. Neely *et al.* (2001:6) state thatbudgets tend to be internally driven and do little to focus attention on issues required to satisfy customers and generate value.

2.7.4Budgets add little value, especially given the time required to prepare them

Trapp (1999), as quoted in Neely *et al.,*(2001:7), found that more than half of the time spent on the budget by the finance department is consumed by putting data together, while only 27 percent of time is spent on analysis. Neely *et al.* (2001:7) add that budgets tend to be bureaucratic and often focus on filling out forms, rather than thinking creatively about how the organisation is going to generate value. This is common in large organisations where this practice can continue without a material negative financial impact. However, in smaller organisations non-value adding time may translate to material financial implications.

2.7.5 Budgets concentrate on cost reduction and not value creation

A study conducted by the CFO magazine, as mentioned in Neely *et al.* (2001:7), found that only 27 percent of companies integrated strategies with tactics and only 22 percent have forecasts that include corrective action. Neely *et al., (*2001:1) suggest that budgets fail to measure and can even stifle the growth of intangible assets, which are now widely seen as key drivers of the future cash flows and shareholder value. It is easier for managers to work towards achieving tangible drivers such as cost reduction, while it may be difficult for them to work towards achieving an intangible driver such as value creation, except if an organisation clearly defines what is expected from managers to achieve value creation.

2.7.6Budgets strengthen vertical command and control

Budgets prescribe the conditions for activity within an organisation, which are generally dictated by top management. The budgeting process provides a mechanism to ensure that these conditions are adhered to, controlling employees rather than encouraging them (Neely *et al.,*2001:7). As mentioned by Neely *et al.* (2001:7), organisations that use imposed budgeting principles are the ones that tend to have vertical command and control structures in place. In such organisations, employees are likely to try to be too careful in performing their duties and this might have negative repercussions in that they become afraid to be innovative and to take initiative.

2.7.7Budgets do not reflect the emerging network structures that organisations areadopting

Neely *et al.,*(2001:7) found that more companies are decentralising their activities and are taking advantage of alliances and partnerships to deliver customer service and to create value. They claim that budgets fail to accommodate such approaches; instead, they promote centralisation controls within the confines of the individual company. Indeed, decentralisation of activities has its benefits, but like any other management system, it has its limitations. Decentralisation tends to assume either absolute or a high degree of responsibility to the lower levels. In this system, lower -level management is empowered with decision-making and the organisation assumes that those decisions will be taken responsibly.

2.7.8Budgets encourage perverse behaviours

In Neely *et al*. (2001:7), the majority of respondents seek to minimise the level of commitment they have to make and maximise their personal gain during the process of setting budgets. This is especially the case when incentive payments to individuals and/or teams depend on meeting certain budget targets. When such a mentality and culture is pervasive throughout the organisation, the drive to improve and develop is lost (Neely *et al.,* 2001:7). The duty of top management may be to achieve goal congruence – a balance between individual needs and organisation-wide needs. Individuals are likely to chase their own development and higher bonuses within an organisation, while top management expects a certain level of performance by noticing the bigger picture.

2.7.9 Budgets are developed and updated too infrequently

Budgets typically have an annual time horizon and tend to remain unchanged in that one-year period despite the fact they are often out of date by the end of the first month (Neely *et al.,* 2001:7). The frequency of updating budgets is relevant in keeping budget targets fresh. A lot can happen in 12 months, especially in organisations operating in the technology sector. Annual budgets may cause organisations to lose market share to their competition owing to a change in customer demand.

2.7.10 Budgets are based on unsupported assumptions and guesswork

Traditional budgets typically include very limited justification for any of the assumptions on which they are based. Managers who prepare budgets do not have to think hard about how they are going to deliver them (Neely *et al.,* 2001:7). It has been suggested that top management contributes to the problem by arbitrary budget cutting or increasing budgets by certain percentages. When top management has a high budget target to achieve, they tend to do arbitrary manoeuvrings on differing business units during budget negotiations. This is likely to have an unfair negative impact on some business units and impact positively on others.

2.7.11 Budgets reinforce departmental barriers rather than encourage knowledge sharing

As everyone strives to achieve their own budget targets, there is little incentive to cooperate with other departments to achieve synergies.

2.7.12Budgets make people feel under-valued

Traditional budgets prevent empowerment and the opportunity for employees to contribute to the achievement of strategic objectives. Neely *et al.,*(2001:7) claim that budgets treat employees as costs to be minimised rather than assets to be developed.Meaningful participation in the budgeting process makes employees feel valuable.This process will ensure that employees understand performance evaluation procedures and their expectations.

2.8 UNDERLYING ASSUMPTIONS RELATING TO BUDGET LIMITATIONS

Considering the definition of a budget, it can be seen that budget numbers ought to be a reflection of a well thoughtthrough process.Budgets are derived from strategic objectives.This meansthat they are simply short-term quantitative management plans linked to long-term plans.Based on this definition, budgets are aligned to corporate strategy.The only underlying assumption that could be drawn in suggesting that budgets are not strategically focused, is that the *process,* and not the *concept,*is not standardised (Neely *et al.,* 2003:6).Consequently, different organisations would conduct budgeting differently, some poorly, leading to misalignment with their own strategy.

Table 2.3, as adapted from an empirical survey conducted on listed organisations in the Netherlands, reflects that 63.6 percent of the organisations in the study claim that their operational budget supports the organisations strategy to a considerable extent, and another 25 percent say it even supports their strategy to a greatextent.These results are in line with the thinking of Drury (2004:549),that the operational budgets should be based on strategy.

Table 2.3: Operational budgeting supports organisations strategy

Not at all	To a little extent	To some extent	To a considerable extent	To a very large extent
-	**2.3%**	**9.1%**	**63.6%**	**25%**

Source: Adapted from De With and Dijkman (2008:27)

The misalignment of budgets to organisational strategy is one of a number of the commonly cited shortcomings of budgets. The budget debate is quite rich when it comes to the shortcomings presented by budgets. However, what may be missing in the debate is the management prowess in managing and implementing the budget process itself. Existing evidence conducted by different scholars through surveys in businesses of different sizes, types and cultures, as well as from practitioners, suggests that what may be a problem in one company is not necessarily a problem in another company(Libby & Lindsay, 2007; Centage/IOMA, 2007; De With & Dijkman, 2008). This view is well supported in a study by Libby and Lindsay (2007:51), who concluded that evidence supports the view that problems exist with budgeting systems in *some* companies and that claims of budgets being fundamentally flawed are overstated.

In their study, Libby and Lindsay (2007:48) claim that there are several well-known examples of extremely successful companies whose budgets lie at the heart of their management control system. They specifically mention Johnson and Johnson, which relies extensively on budgeting systems and is perennially ranked as one of the best-managed organisations in Fortunes' annual survey. De With and Dijkman (2008:35) proved in their survey that Dutch CFOs are normally very satisfied with their budgeting practices. Therefore, budgeting may remain a valuable management tool and a cornerstone in a number of organisations.The above findings seem to suggest that some organisationsmay find budgets to be somewhat problematic and not adding any value whilst other organisationsstill find budgets to be a useful management tool.

Figure 2.5 shows the results after Libby and Lindsay (2007:51) asked the respondents to what degree they viewed the budgeting process as adding value. In their responses, respondents were asked to take into account the amount of management time spent on the budgeting process, the budget system's effectiveness in assisting the business unit to achieve its goals, and any dysfunctional behaviour that the budgeting system might cause. As shown in the results, a good value was obtained from the use of a budget, even after considering the time and cost of budgeting.

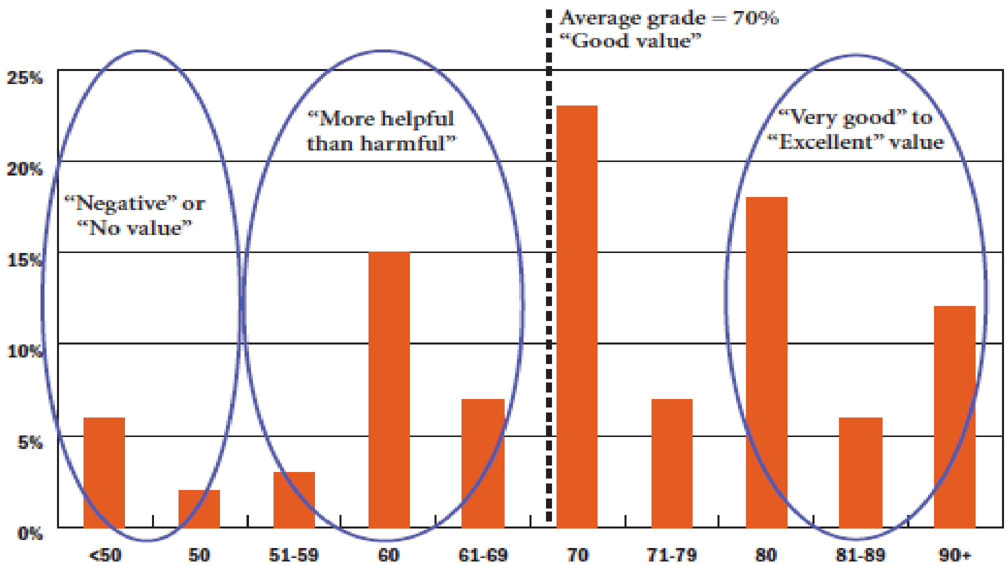

Figure 2.5:Are budgeting systems adding value?

Source: Adapted from a survey conducted by Libby and Lindsay (2007:51)

Drawing an inference from the quoted studies, budgets work for some but not for others.It shows that organisations with astute management skills have perfected the process while others are still experiencing problems with budgeting.Without conclusively suggesting that problems with budgeting lie entirely with the skills of the management, it remains a significant contributing factor to the process.

2.9 ORGANISATIONAL ASPECTS OF BUDGET MANAGEMENT

This study focuses on the three organisational aspects relating to budget management: the budgeting process, organisational behaviour and business ethics, and the effectiveness and efficiency of budgeting.

2.9.1Budgeting process

In defining the concept of budgeting, this study sets out clearly that the point of departure is strategic planning.Budgeting is merely the operationalisation of an organisation's strategic objectives.There may be no cardinal or standardised budgeting process or budget preparation procedure that every organisation can follow in a set format.Even if organisations were to follow exactly the same process, the elements that need to be considered when implementing such a management tool may still bring a unique flair to the system.

The crucial point in the budgeting process may bemanagement'sability and diligence during the process.Horngren, *et al.,* (2006:374) emphasise that management must administer budgets carefully and intelligently.Kaplan and Norton (1996) bring another dimension to this topical issue when discussing the four barriers between strategy formulation and strategy implementation.Kaplan and Norton (1996:194) state that,"This barrier can perhaps be attributed to the failure of human resources managers to facilitate the alignment of individual and team goals to overall organisational objectives". While this analogy relates to strategy formulation and implementation, similarities may be drawn to budget formulation and implementation.

Top management has a duty to put processes in place to ensure that goal congruence between individual managers and the organisation is upheld.Failing this, the level of commitment from those tasked with delivering a valuable budget is under threat.As Kaplan and Norton (1996:194) suggest, to formulate and to implement are not always in line and perhaps differ because of management capacity.

A budgeting process that is based on Traditional Budgetingpractices may no longer be relevant in today's business environment, especially given the pace at which economic factors change.As mentioned by Neely *et al.* (2001:7), organisations that use imposed budgeting principles are the ones that tend to have vertical command and control structures in place.This may have a potential to leave managers feeling despondent and under-valued, due to non-involvement in the process.In this case,management frustration may be expected, because managers are required to run business units and achieve targets they never set.

If an organisation adopts a participative budget approach, such frustrations could be eliminated.According to French, Israel and As (1960:3)*participation* is defined as a process of joint decision-making by two or more parties in which the decisions have future effects on those making them.A participative budget approach is bottom-up in its nature and seeks to involve lower-level management and even non-managers in the process with insurmountable spin-offs directed at improved communication, coordination and motivation.Hanson (1966:239) statesthat members of an organisation become better acquitted and associate themselves more closely with budget goals if they are involved in the creation of the budget.Therefore, the key may be the approach adopted by an organisation in implementing budgeting.

Better Budgetingpractices may allow more frequent budget adjustments to accommodate unexpected economic eventualities, for example Rolling Budgets and Forecasting.To manage their organisations more effectively, organisations may invest inERP systems.The ERP systems integrate internal and external management information across an entire organisation, embracing finance/accounting, manufacturing, sales and service, customer relationship management, etc. An ERP system automates this activity with an integrated software application to provide seamless interface.

2.9.2 Organisational behaviour and business ethics

Organisational behaviour refers to the expected behaviour of employees in the organisation. It is a field of study that investigates the impact that individuals, groups, and structures have on behaviour within organisations for applying such knowledge towards improving an organisation's effectiveness (Robbins, 2003:8). Robbins states that business ethics are underpinned by a number of principles and standards, including defining acceptable conduct in business and ethical decision-making.

Application of budgeting practices may require education, persuasion and intelligent interpretation. If budgeting practices are not administered correctly, managers may regard budgets negatively. However, it is the responsibility of top management to convince their subordinates that a budget is a positive tool, designed to enable managers make decisions and reach goals.

Business unit managers may generally have two-focused deliverables, one downstream and the other upstream. The upstream relates to servicing top management in achieving corporate targets in line with an organisation-wide strategy. On the downstream, the business-unit manager may have to manage departmental managers, supervisors and other subordinates who directly/indirectly report to him/her. One of the key priorities within a business unit is to assist in operational decision-making and to keep the business unit organised and motivated in pursuit of meeting business-unit targets. Invariably, while top management may want to stretch the business-unit targets, the business unit itself may be persuaded to submit targets that may be achievable. This phenomenon may even have a higher propensity in organisations where performance evaluation and the awarding of bonuses are linked to achieving budget targets.

In this instance, business-unit managers may have to exercise discretion in representing the economic reality of the business unit. They may use this discretion to represent the economic situation of the business unit to top management fairly and objectively, but may also abuse this discretion to provide top management with biased judgments in the interest of appeasing and assisting business-unit employees to achieve their budgetary targets, which could be translated to bonuses and potential future promotions. The latter refers to a behaviour commonly known as budgetary slack.

According to Chow*et al.*, (as quoted by Webb, 2002:361), budgetary slack is the intentional biasing of performance targets *below* their expected levels. Business-unit managers are aware that if they can get away with creating budgetary slack, there are incentives such as higher bonuses for meeting budget targets. This ethical dilemma faced by business-unit managers touches on personality traits and organisational behaviour and culture. Budgeting, as a management tool, does not cause budget gaming and unethical behaviour.

In Figure 2.6, Shastri and Stout (2008:23) seek the perceptions of practitioners regarding the negative behavioural consequences associated with the use of budgets. As depicted in the graph, respondents largely believe that budgets *do not* have any of the listed negative behavioural consequences. This confirms that budgets do not cause managers to behave unethically.

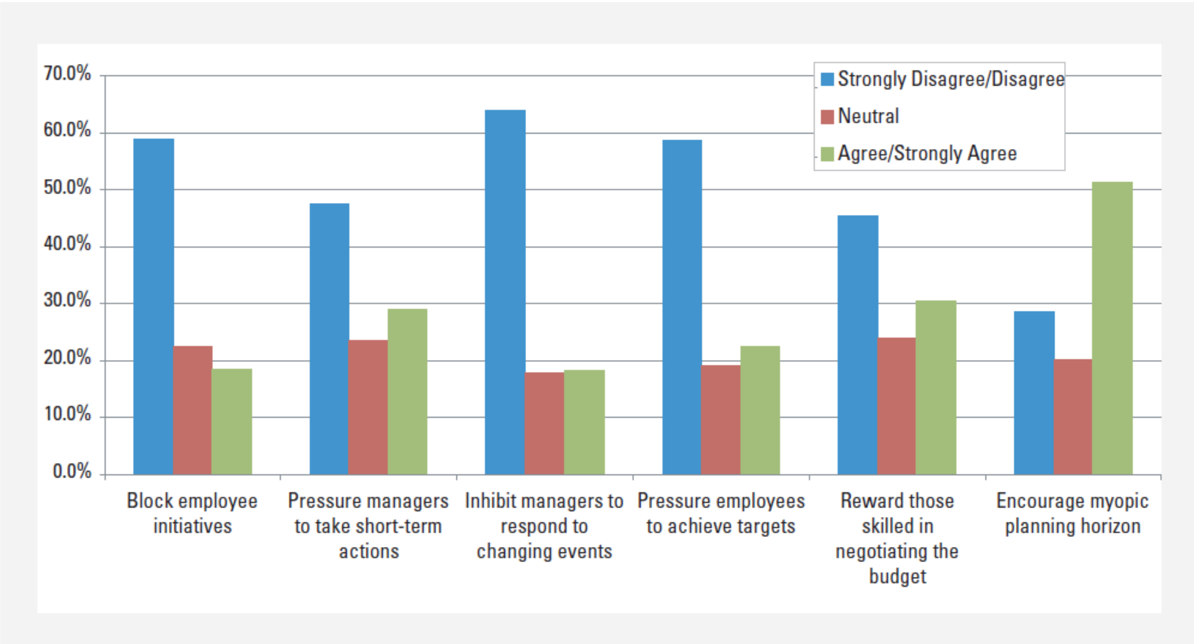

Figure 2.6:Negative behavioural consequences of budgeting

Source: Adapted from a survey conducted by Shastri and Stout (2008:23)

Mowday, Steers and Porter (1979:224) is of the opinion that theoretically, committed employees should work harder, remain with the organisation and contribute more effectively to an organisation. Managers are therefore expected to deliver their work with high diligence and integrity. The bottom line is that if managers engage in unethical behaviour, the organisation has a culture problem and perhaps, even more so, a problem with the calibre of management it employs. Budgets *cannot* convert a man of high integrity into an individual who is there to serve the goals of individuals and ignore company goals.

2.9.3Effectiveness and efficiency of budgeting

An effective budget may propel an organisation closer to achieving its strategic objectives. In order to do so, budget targets may have to be dynamic, able to encourage communication; serve as a motivation; and enhance coordination proper planning of operational activities, performance and cost control.

In a survey by Jackson & Starovi'c, (2004:11), the use of budgets in medium to large organisations was investigated. The results are depicted in Table 2.4. An attempt was made to identify the changes that have taken place against the background of the debate about the merits of budgeting. As can be seen, the overall results depict 71,8 percent of respondents confirming that budget use is very important or extremely important.

Table 2.4 Perceptions of the importance of budgeting uses by 40 financial managers

	Not very important or almost irrelevant (%)	Fairly important (%)	Very important or extremely important (%)
Overall	5.1	23.1	71.8
Planning	2.5	25.0	72.5
Control	5.0	20.0	75.0
Co-ordination	17.5	37.5	45.0
Communication	17.5	35.0	47.5
Authorisation	10.0	40.0	50.0

	Not very important or almost irrelevant (%)	**Fairly important (%)**	**Very important or extremely important (%)**
Motivation	37.5	30.0	32.5
Performance evaluation	12.5	22.5	65.0

Source: Adapted from Jackson and Starovi’c, (2004:11).

In an participative process, managers are actively involved and are likely to feel part of setting targets.It is therefore the view of this study thatmanagers and employeesmay be part of the process to yield maximum value from the process.

Better Budgetinghas the potential to address most of the cited problems of budgeting (Neely *et al.,*2003:7–8).In their study, Libby and Lindsay (2007:50) asked the respondents if they agreed that budgets have the potential to be useful if they areused appropriately. The average level of agreement with this statement was five out of a possible six.

Again, in line with the assertions made inSection 2.2, it may be the *process* and not the *concept* that is a dominant factor in most of the cited budget problems.

In conclusion, the organisation’s specific management skill is vital in achieving a value-adding budget.Rachlin and Sweeny (1993:2) emphasise that budgeting cannot displace good management; it is only a tool whose usefulness depends on the skills managers bring to their jobs.Rachlin and Sweeny (1993:2) furthersuggest that management and budgets are inextricable in that the relationship between them is identical to the one visualised by the poet WB Yeats concerning the inseparability of dancers from their dances.

2.10 TRADITIONAL BUDGET PRACTICES

Ross (2008:1) has defined a budget as a quantitative expression of a plan for a defined period of time.Walther (2012:159) says budgets don't guarantee success, but they certainly help to avoid failure. The budget may be an essential tool to translate general plans into specific, action-oriented goals and objectives. By adhering to the budgetary guidelines, the expectation is that the identified goals and objectives may be fulfilled.Traditional Budgets are based on incremental budgeting, where the budget is based on the previous period's budget or on actual results, and contains an uplift for inflation or other known changesRoss (2008:12).

According to Ross (2008:4) budgets can be drawn up for business units, departments, products, teams or the entire organisation.Ross (2008) further says,as a control mechanism, budgets set out the benchmark against which performance will be measured.Performance against budget may be part of the organisation's appraisal system for individuals who are deemed accountable for such performance.Therefore a budget may bea management tool expressed in quantitative terms, as this may be the most logical way to prioritise and co-ordinate complex competing decisions throughout an organisation.

The downside of traditional budgets within an organisation is the view that they may be dismissed as a finance tool because they usually originate from the finance department and involve numbers. Unenlightened managers might undervalue theircontribution to the budget process.Another factor that is likely to contribute to the unpopularity of budgets is the time and effort spent on preparing and negotiating them, as well as the difficulty to explain variances.One school of thought believes that budgeting contributes to information overload, restricts management action and generally drains rather than contributes to the organisation(Ross 2008:4).

It is crucial to remember that a large organisation may consist of many people and parts. These components may need to be orchestrated to work together in a cohesive fashion.

The budget may be the tool that communicates the expected outcome and provides a detailed script to coordinate all of the individual parts to work in concert.

Traditional Budgetingbusiness principles may no longerbe conducive to the conditions of today's business environment.In the sections that follow, some of the Traditional Budgetingprinciples and disadvantages are discussed.

2.10.1Traditional budget principles

2.10.1.1 Top-Down Mandated budget process

According to Walther (2012), some entities will follow a top-down mandated approach to budgeting. These budgets will begin with upper-level management establishing parameters under which the budget is to be prepared. These parameters can be general or specific. They can cover sales goals, expenditure levels, guidelines for compensation, and more. Lower-level personnel have very little input in setting the overall goals of the organization. The upper-level executives call the shots, and lower-level units are essentially reduced to doing the basic budget calculations consistent with directives. Mid-level executives may colour the budget process by refining the leadership directives as the budget information is passed down through the organization.

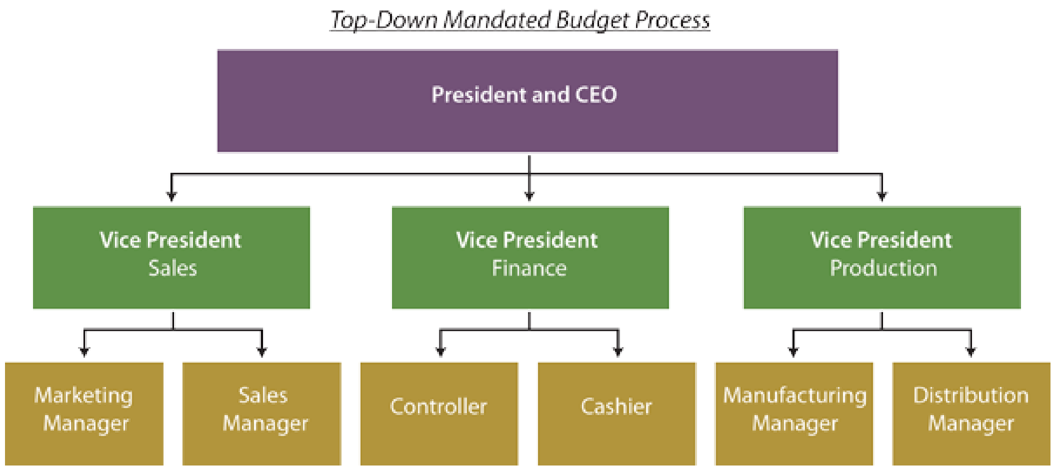

Figure 2.7: Top-Down Mandated Budget Process

Source:Walther (2012)

Walther (2012) further says, one disadvantage of the top-down approach is that lower-level managers may view the budget as a dictatorial standard. Resentment can be fostered in such an environment. Further, such budgets can sometimes provide ethical challenges, as lower-level managers may find themselves put in a position of ever-reaching to attain unrealistic targets for their units.

On the positive side, top-down budgets can set a tone for the organization. They signal expected sales and production activity that the organization is supposed to reach. Some of the most efficient and successful organizations have a hallmark strategy of being “lean and mean.” The budget is a most effective communication device in getting employees to hear the message and perform accordinglyWalther (2012).

2.10.1.2 Bottom-up participative budget process

The bottom-up participative approach is driven by involving lower-level employees in the budget development process. Top management may initiate the budget process with general budget guidelines, but it is the lower-level units that drive the development of budgets for their units. These individual budgets are then grouped and regrouped to form a divisional budget with mid-level executives adding their input along the way.Eventually top management and the budget committee will receive the overall plan. As one might suspect, the budget committee must then review the budget components for consistency and coordination. This may require several iterations of passing the budget back down the ladder for revision by lower units. Ultimately, a final budget is reached.

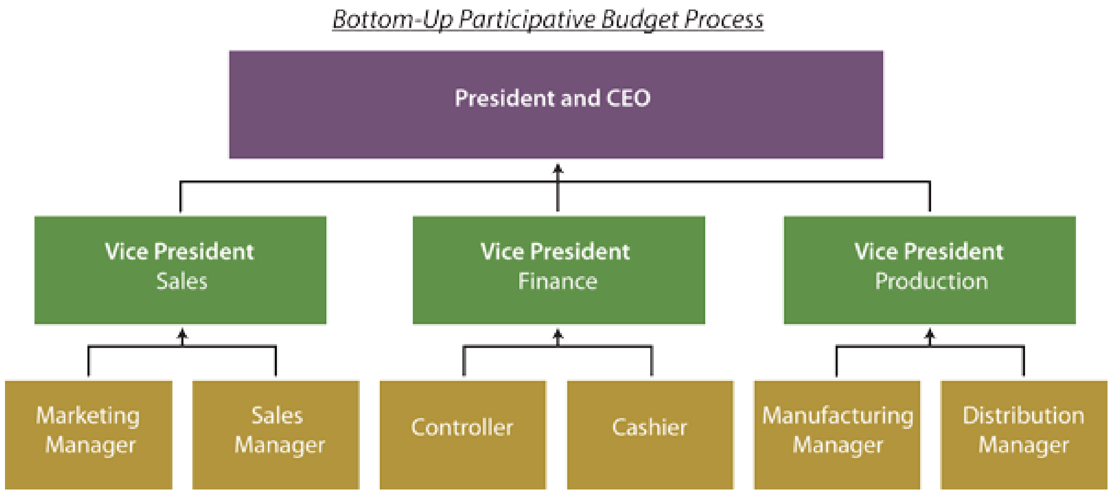

Figure 2.8: Bottom-Up Participative Budget Process

Source: Walther (2012)

The participative budget approach is viewed as self-imposed. As a result, it is argued that it improves employee morale and job satisfaction. It fosters the “team-based” management philosophy that has proven to be very effective for modern organizations. Furthermore, the budget is prepared by those who have the best knowledge of their own specific areas of operation. This should allow for a more accurate budget.

On the negative side, a bottom-up approach is generally more time-consuming and expensive to develop and administer. This occurs because of the iterative process needed for its development and coordination. Another potential shortcoming has to do with the fact that some managers may try to “pad” their budget, giving them more room for mistakes and inefficiency Walther (2012).

The participative approach maybe considered the most appropriate approach, as managers are fully aware of what makes the budget targets they are expected to achieve.It also goes a long way in preventing defiance against imposed figures by rather encouraging managers to work harder.

2.10.1.2 Fixed targets

In Traditional Budgeting, budget targets are fixed for a year, irrespective of economic challenges that may arise in the course of the year.Figure 2.11 illustrates how Hope and Fraser (2003a:111) compare a fixed performance contract under the traditional system with the relative performance contract under Beyond Budgeting.

Figure 2.9:Fixed performance contract versus relative performance contract
Source: Hope and Fraser (2003a:111)

- **Incremental improvement versus Innovation**

The author is of the opinion that fixed performance contracts limit innovation in that employees are not pushed to outdo themselves. When the organisation lacks innovation, it runs a risk of being beaten by its competition and thus losing market shareHope and Fraser (2003a:111).

- **Fear of failure versus taking a risk**

This will result in incentive target schemes based on achieving static targets whereby a manager is discouraged to try more or is even afraid of trying to push himself / herself, since the aim is to achieve what has been set. Under the relative performance contract, managers are measured according to the competition. In this system, at least an organisation can be sure that it is on par with the marketHope and Fraser (2003a:111).

- **Rigid plans versus continuous planning**

Rigid plans tell managers that they need to achieve a certain goal to earn their bonus for the year. This tends to encourage managers to take their foot off the pedal when they have already achieved the budget, whereas under a relative performance contract, managers can never become complacent, since the target is always moving and therefore leads to value creationHope and Fraser (2003a:111).

- **Preset allocation versus on-demand allocation**

When resources are allocated to a department during the budgeting process, they remain with that department whether they are used or unused. The business-unit managers therefore have the tendency to hoard those resources until the end of the year. In the relative performance contract, resource allocation is on-demand, meaning that unit managers will only be allocated according to the demandHope and Fraser (2003a:111).

- **Centralisation versus decentralisation**

Timely decision-making is key in an organisation;hence, in the relative performance contract it is believed that it should devolve to where it matters most.This system believes in the empowerment of managers to make decisions in their operationsHope and Fraser (2003a:111).

2.10.1.3 Incremental budgeting

Incremental budgeting uses a previous budget as its point of departure.The risk is that the previous year's inefficiencies are inherently built into the new budget.Managers tend to take the previous year's figures and adjust them with inflation to arrive at the next budget.It therefore prevents managers from being innovative and pushing themselves to do betterHope and Fraser (2003a:111).

2.11 REASONS WHY ORGANISATIONS HAVE NOT ALREADY OVERCOME THESE SHORTCOMINGS

Scapens and Roberts (1993) suggest that budgets may be retained in most organisations simply because they are so deeply ingrained in an organisation's fabric.The Traditional Budgetingprocess was developed many years ago for the industrial age when it served its purposes perfectly.However, today's economic demands may render the Traditional Budgetingprocess ineffective.Nowadays, organisations may have to keep abreast with contemporary management- principle developments to remain competitive.

The recent surveys conducted by Libby and Lindsay (2007), De With and Dijkman (2008), Centage/IOMA (2007), and Shastri and Stout (2008) still reflect a fair amount of organisations that have not overcome the Traditional Budgetingshortcomings.Neely*et al*.,(2001) identify the following reasons why organisations fail to change their planning and budgeting process:

- The cost of overhauling the budgeting system can be very high and the benefits of changing a budgeting system are less quantifiable than they are, for example, for, information systems.
- Analysts estimate that as many as half the organisations that embark on such an overhaul become overwhelmed and decide to give up.
- Traditional budgetingprocesses are difficult to discard because they remain a centrally coordinated activity within the business.It is usually the only process that covers all the areas of organisational activity.

The above reasons show that the cost and effort of overhauling planning and budgeting systems are key factors in preventing change.To address this issue, it would appear necessary for organisations to take a proactive approach of continual modification of planning and budgeting systems.This is the Better Budgetingapproach.

2.11 SUMMARY

The literature is clear about the dissatisfaction and frustration with the Traditional Budgeting processas experienced and expressed by some managers and accounting practitioners.It is evident that a departure from TraditionalBudgeting is inevitable.In a highly volatile economic environment,itis crucial for organisations to be dynamic and to maintain a competitive edge.This competitive edge relates to the speed at which an organisation can adapt to the demands of the economy at a particular point in time, ahead ofcompetition.Failure to do so might render an organisation susceptible to various business risks.When Jack Welch (the CEO who took General Electric (GE) from being worth $10billion to $500 billion) described the budgeting process as "the bane of corporate America,"(Rickards, 2006:62) he was articulating the frustration of many senior executives and academics who recognise that the annual budgeting process is rarely justified in today's fast-changing, highly competitive environment.

For organisations to achieve dynamism and competitiveness,it will be imperative to keep abreast with some of the global best practice management tools available.This will allow organisations a swift reaction or responsiveness to economic challenges.

Theory suggests that operational budgets are derived from an organisation's overall strategy or strategic plan.The underlying difference between operational budgets and strategic planning is time. Operational budgets are about meeting short-term targets,while strategic plans are about meeting long-term targets.Therefore, the riskthat managers are likely to chase short-term targets while compromising strategic objectives, which is behaviour referred to as short-termismby Neely *etal.,*(2001:6), could not be confirmed.

According to Neely *et al*., (2001:6), managers have expressed their frustration with budgets,as their organisationsoperate inhighly volatile markets.This situation therefore presents a challenging environment when fixed budget targets are dealt with.However, the budgeting process allows managers to work with various what ifscenarios and therefore can make relevant decisions. The budgeting process also substitutesa deliberate, preconceived business judgement for accidental success in enterprise management,with a description of an attainable objective.It should be emphasised that budgets reflect plans, and that planning should have taken place before budget targets are set.

Academics believe that if budgeting is to have any value at all, it needs a radical overhaul (Libby &Lindsay, 2007:50).This view aims to acknowledge the limitations presented by Traditional Budgets and the adoption of Better Budgeting practices.

This study seeks to hone into some of the commonly mentioned budget limitations with an intention of establishing the source or the cause of the limitation. Is the problem with budgeting or is it with the management of the budgeting process?The study starts by contextualising some of the commonly mentioned budget limitations into three categories; i.e.(i) The budgeting process, (ii) Organisational behaviour and business ethics, (iii) Effectiveness and efficiency of budgeting.It should be noted, though, that budgeting as a system is managed differently by different organisations, hence the need to analyse the "management" of the budgeting process.

CHAPTER 3

RESEARCH PROPOSITION

3.1INTRODUCTION

This study proposes the adoption of Better Budgeting practices i.e. Activity Based Budgeting, Zero Based Budgeting, and Rolling Budget and Forecasting. For South African organisations to remain agile and globally relevant regarding the budgeting process, itmay be imperative that they keep abreast with contemporary budgeting practices.

Under today's volatile business conditions, value creation is crucial to organisations. To achieve value creation, organisations must have a budget that is aligned to corporate strategy. This study commenced by highlighting the history of budgets, which have been in existence since the nineteenth century. It also emphasised its significance and its widespread use in today's corporate world as a key management tool. In their study, Libby and Lindsay (2007:51) confirm that managers still insist that budgeting remains at the centre of their organisations.

The question of budget relevance has led to an on-going debate and discussion among scholars in the field, with some of them vehemently calling for its eradication(Hope and Fraser (2003a), Horváth and Sauter (2004), Daum (2005), Neely, Sutcliff and Heyns (2001)). This contention stems from Traditional Budget practices that may have become less effective in meeting today's rapidly changing business environment. These practices include imposed budgeting, fixed-target and incremental budgeting.

This chapter hones in on Better Budgeting practices as developed over the years in order to respond to the ever-changing micro- and macro-economic business environment factors. To remain competitive, organisations may have to understand that Traditional Budget practices may no longer be relevant, and that the adoption and implementation of the latest budgeting practices may bethe alternative. The Better Budgeting practices considered in this study include (i) Activity Based Budgeting, (ii) Zero Based Budgeting and (iii) Rolling Budget and Forecasting. This study also hones in on the alternative to budgeting i.e. Beyond Budgeting, which is a fairly new innovation in the field of management accounting.

Budgeting practices were briefly introduced in the previous chapter. This chapter takes a deeper perspective by unpacking the development of the practice, its underlying principles, the benefits and limitations, as well as practical guidelines for prospective users. It concludes by looking at the diffusion mechanism theory, a process critical in the implementation and acceptance of any new management concept. Without proper change in management processes and an understanding of how top management is planning to introduce a new concept such as a new budgeting practice, managers and employees are likely to be defiant in accepting it.

3.2 ACTIVITYBASED BUDGETING

Cooper and Kaplan (1998:114) state that Activity Based Budgeting (ABB) seeks to improve the accuracy of financial forecasts and to provide management with better business understanding. They further saythis tool allows managers to determine the supply and practical capacity of resources in forthcoming periods. ABB has the capability of accurately producing the financial plans and models based on varying levels of volume assumptions. ABB analyses the products or services to be produced, determines what activities are required to produce those products or services, and finally ascertains what resources need to be available to perform those activities.

3.3 DEVELOPMENT OF ACTIVITY BASED BUDGETING

Harvard professors, Cooper and Kaplan (1998), developed ABB. They address the distortion problem of traditional costing methods for assigning overhead costs directly to the product. It is a method of budgeting in which the activities that incur costs in every functional area of an organisation are recorded and their relationships are defined and analysed. It looks at the cost structure of an organisation through the processes that are actually performed, thus allowing managers to effectively analyse the profitability of products and services. Cost efficiencies can be found by comparing activities performed in different areas of the organisation and consolidating or rerouting certain functions.

Activity Based Costing (ABC) traces costs from resources (people, machines) to activities and from activities to specific products and services. On the other hand, ABB moves in the opposite direction by tracing costs from products to activities and then from activities to resources (Cooper & Kaplan, 1998:116). Figure 3.1 reflects the structure of the ABC and the ABB system.

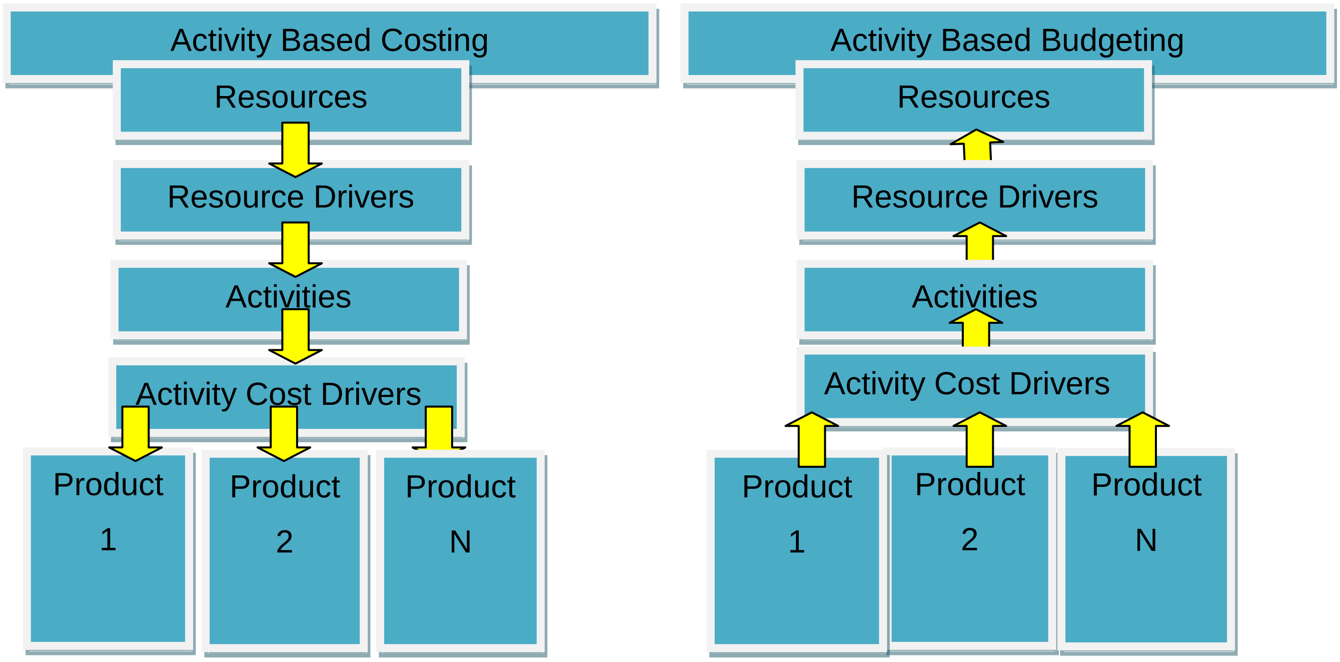

Figure 3.1:Activity Based Costing and Activity Based Budgeting Structure
Source: Cooper and Kaplan (1998:116)

According to Cooper and Kaplan (1998:116), ABC information enables managers, during the budgeting process, to authorise spending for only those resources that are needed to perform the activities they think will be needed in upcoming periods. Instead of the ABC north-to-south cost flow from resources through activities to products and customers, ABB uses a south-to-north cost flow.

Once the key processes in an organisation are modelled, using activities through to cost objects, users have the power to reverse their budget model to predict new levels of resource requirements and costs for any given level of output. This approach to resource planning and forecasting (ABB) allows users to forecast the impact on resources and costs by simply changing the volumes of product sales. The system will therefore forecast new levels of activities, resources, costs and profitability for any level of output, highlighting capacity constraints and integrating the internal demand for shared services Barrett (2005:32). This is illustrated in Figure 3.2.

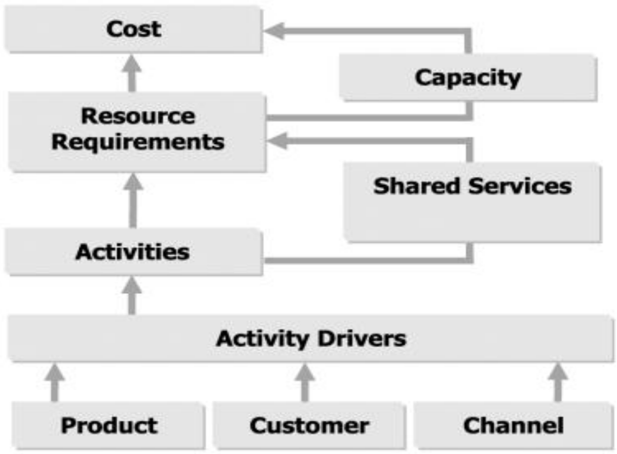

Figure 3.2:Activity Based Budgeting process
Source:Barrett, 2005:32

According to Barrett (2005), Activity Based Budgeting (ABB) has been simplistic in the past, often involving little more than the reverse calculation of a standard activity-based costing model. This is, however, far from ideal. To undertake predictive planning, Barrett claims that the process can be better managed over three stages:

- There is a need to generate a new forecast of the volume and type of activities that are required, ideally from within the system, where users can play scenarios and adjust this forecast.
- The system should take these forecasts and calculate the resource requirements (including shared services). At this point, users can directly adjust their resource requirements and make comparisons with capacities.
- Only then should the system complete the cycle by forecasting the final costs by line item and department.

Barrett (2005:32) continues by stating that all of this driver information has been available within organisations for many years, but it has never been included as a part of the budgeting process. Incorporating these non-financial drivers of cost ensures that forecasting and planning become richer and more accurate, reforecasts are available on demand, and operational managers can fully understand the impact that they have on the bottom line.

Barrett (2005:32) concludes by saying, because ABB reduces the involvement of line managers in the planning and budgeting process, it is rarely used as the sole planning and budgeting methodology. It is more often used in scenario planning to produce a top-down forecast for coming years, with driver-based budgeting used to generate the annual budget.

Advocates of ABB, such as the CAM-I group, Brimson and Fraser (1991:42), view this practice as more realistic, since it involves looking inward at activities and costs rather than basing the budget on outward influences. From this perspective, the strategy may be understood to create financial forecasts that are more accurate, and thus prompts the organisation to make the most efficient use of its resources. As a benefit to an organisation that implements this practice, the analysis of each activity and its contribution to the on-going success of the organisation means that activities that do not appear to relate to other activities within the organisation structure may be unnecessary and can be eliminated without having an adverse effect on the overall operation.

3.3.1Underlying principles of Activity Based Budgeting

Using ABB offers a complete overview of feature costing. Feature costing is a technique used in conjunction with ABB and the underlying principles of ABB, including linking strategy to activities, forecasting revenue, capacity management and gap analysis (Hope& Fraser 2003b). ABB creates value by translating the business strategy into the activities necessary for implementing that strategy. Feature costing creates value by understanding sources of product and customer variation and relating this variation to the expected workload. Therefore, the selling point of this budgeting practice may be its ability to translate business strategy into activities.

3.3.2Benefits of Activity Based Budgeting

Cooper and Kaplan (1998:114) suggest that ABB gives managers much greater control over their cost structure, and particularly over how to transform so-called fixed costs into variable ones. After all, what makes a cost a variable is not inherent in the nature of the resource; rather, it is a function of the managers' decisions about how much to spend in order to supply a resource and how quickly to adjust the supply of that resource as demands for its services change. With ABB, managers can make those supply decisions during the budgeting process. The benefits of ABB, adapted from Cooper and Kaplan (1998), include that ABB

- supports continuous planning;
- has the ability to challenge individuals to be forward-thinking in the redesign of relevant business activities that are value adding for the organisation;
- assists organisations to become more competitive by linking the budgeting process to organisation strategy;
- identifies waste and non-value in budgets and creates action plans to eliminate them;
- forecasts workload to create an Activity Based Budget;
- allows for an environment where service departments are charged out to operating departments;
- incorporates financial and non-financial alternatives into the budgeting process;
- moves people out of spreadsheet budgeting where they simply increase the previous year's numbers;
- develops a flexible budget based on activity workload;
- considers changes in activity volume (e.g. phone calls, invoices); and
- compares what was spent with what should have been spent for a given volume.

3.3.3Limitations of Activity Based Budgeting

According to Cooper and Kaplan (1998:117), as a concept ABB is easy to understand. However, in practice it is not so easy to implement. The organisation has to specify far more details than it would in conventional budgeting, such as details about the demand for activities from production and sales; details about the underlying efficiency of organisational activities; and details about the spending, supply pattern, and capacity of individual resources. However, if it is done successfully, managers are able to adjust resource supply to match future resource demands and reduce the amount of unused capacity throughout the organisation. Nevertheless, ABB is not without limitations. This study has identified the following points:

Similar to other management accounting tools, ABB will require investment in the new software especially if the organisation is not using ABC; managers will need extensive training to understand the basics, particularly as this tool requires more detailed information than traditional methodology; converting normal business processes to activities and identifying cost drivers might not be easy for some managers to do. This might lead to potential chaos or defiance and the ABB process will consume a lot of time in organising and putting together information for all departments. This also has the potential of demotivating managers.

3.3.4Practical guidelines for prospective users

The authors of ABB developed a step-by-step process for any prospective user of this budgeting practice. The steps in Table 3.1 are adapted from Cooper and Kaplan (1998:116), giving a description of what exactly is entailed in each step.

Table 3.1: ActivityBased Budgetingguidelines

No.	STEPS	DESCRIPTION
1	Estimate the production and sales volumes for the next period	As in any other budget practice, the budget figures are driven by certain assumptions that are used to arrive at estimates.The estimated numbers relate to production, sales volumes, and mix of products and customers.The budget needs to be more detailed than is done conventionally. It must include, for example, information about the processes that will be used to achieve production and sales volumes: the expected number of runs for

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		each product, the frequency of orders for materials, and the method of shipment.

No.	STEPS	DESCRIPTION
2	Forecast the demand for activities	Activity Based Budgetingcontinues by forecasting the demand for activities such as ordering, receiving, and handling materials or developing new products. Today, organisations use forecasts to develop budgets for material purchases, as well as for labour and machine times. Activity Based Budgeting extends this analysis by estimating the demand for all activities required to make and sell products.
3	Calculate the resource demands	ActivityBased Budgetingthen estimates how many and what types of resources will be needed, thus accomplishing the anticipated workload.
4	Determine the actual resource supply	The ActivityBased Budgeting process continues by converting the demand for resources into an estimate of the total resources to be supplied.
5	Determine activity capacity	Finally, once the system has estimated the budgeted supply of resources, it can calculate the practical capacity of each activity. For example, given the "lumpiness" of resource capacity, the supply of resources will generally exceed the forecasted demand. Once supply is determined, the system works backward to determine which resource element constrains the maximum quantity of the activity that can be performed.

Source: Cooper and Kaplan, 1998

As can be seen from the above steps, most of the information gathering would have been covered in the traditional methodology. The ABB also uses budget estimates like the traditional system does. However, the level of detail is different with ABB, as more detailed information is required.

3.4ZEROBASED BUDGETING

As with many new management techniques, the proponents of ZBB are very vocal in stating the advantages of using the technique. Suver and Brown (1977:76) suggest that if properly implemented, ZBB can be a considerable improvement over the typical budgeting approach, while Suver and Brown (1977) emphasise further that an astute manager will selectively apply the technique to those areas that offer the potential for the greatest pay-off.

3.4.1 Development of Zero Based Budgeting

ZBB made its organisational debut in the early 1960s in the U.S. and specifically in the Department of Agriculture, that later abandoned it. Its first acknowledged success in industry was in the late 1960s at Texas Instruments, where it started as a method to plan and manage research projects and evolved later into a staff overhead-control technique. An article on ZBB by Peter A. Pyhrr, who guided Texas Instrument's initial efforts, appeared in the *Harvard Business Review* in the late 1970s (Austin & Cheek 1979:2).

In essence, ZBB requires that an organisation does business differently from the way it was done previously. It commences from the assumption that levels of expenditure in the previous period do not justify the continuation of that spending in future. All spending must be justified from scratch in each budget period. ZBB is most useful in the control of indirect and overhead activities. Austin and Cheek (1979:2) claim that the acid test of success is when top management stops challenging budget requests with questions such as, "Why does this section cost so much?" and start asking, "What alternatives have been considered?"

3.4.2 Underlying principles

In its pure form, ZBB involves the preparation of operating budgets based on the assumption that the organisation is starting afresh in a new planning period. It is as if the life of the organisation exists as a series of fixed-term contracts. It was developed as an alternative approach to address the deficiencies of incremental budgetingSteven (2007:50). Steven (2007:50) says this method asks the following key questions:

- Should an activity be performed?
- How much of an approved activity should be provided?
- How should the activity be undertaken?
- How well should the activity be done?
- Should the activity be performed in-house or subcontracted?

The ZBB approach may ensures that inappropriate activities are not undertaken, since it makes a full evaluation of existing activities in relation to future needs. However,the main disadvantage of this method is that it may take a long time to complete, since it requires the gathering, analysis and evaluation of large amounts of data.

3.4.3 Benefits of Zero Based Budgeting

Austin and Cheek (1979:2) refer to a study that was conducted by the American Management Associations in 1977. Table 3.2 sets out the responses received when asked the question "What purpose does ZBB serve in your organisation?"

Table 3.2: Purpose of ZBB in the organisation

Purpose	Number	Per cent
To allocate resources in a better way	17	30%
To improve decision-making	14	25%
To facilitate planning	11	20%
To reduce costs or personnel	7	12%
Miscellaneous	7	13%
Total	**56**	**100%**

Source: Austin and Cheek (1979:3)

The results reflect that 30% of the respondents in the study suggest that the purpose ofZBB in their organisations is to allocate resources, while only 12% suggest that it is to reduce costs or personnel. This view is in line with the principle of ZBB that says ZBB is about searching for an alternative by starting from the scratch. Austin and Cheek (1979:7) outline the benefits of ZBB by stating that: the resources of the organisations are efficiently distributed; managers are encouraged to be innovative; a gap for unsubstantiated budgets is closed; it has an ability to increase the staff morale by providing greater initiative and responsibility in decision-making; it promotes coordination, controlling and effective communication within the organisation and it detects fruitless and wasteful operational activities.

3.4.4 Limitations of Zero Based Budgeting

ZBB is not without difficulties. Below are some of the most frequently encountered limitations according to Austin and Cheek (1979:6): Some managers might find it daunting and complex to define decision units and decision packages; it is time-consuming and exhaustive; it demands that managers justify every detail related to expenditure; It requires a clear understanding at various levels to be successfully implemented and it requires involvement of many managers and that might pose challenges to administer and communicate the process.

3.4.5 Practical guidelines for prospective users

ZBB involves five steps to be taken. The steps in Table 3.3 are adapted from Austin and Cheek (1979:4).

Table 3.3: Five steps to developing a Zero Based Budgeting system

No.	Step	Description
1	Define decision units	A decision unit is a cluster of activities for which a given manager can be held accountable, and for which we can define an input (or cost) and output (or benefit).
2	Setting objectives	Setting ZBB decision unit objectives draws heavily on the techniques of management by objectives (MBO).Again, during the initial implementation phases of ZBB, most organisations allow the decision-unit manager to set his own charter, build a supporting pyramid of objectives, and gain the concurrence of his superiors on them.
3	Developing decision packages	Translating objectives into tactical plans is accomplished through the decision package.A decision package has been defined as "an identification of a discrete function or operation in a definitive manner for management evaluation and comparison to other functions".
4	Ranking the packages	As decision packages are formulated, it involves a deep intellectual thought process of searching out alternative ways, choosing among the best of them, and breaking up the chosen alternative into incremental levels of effort.
5	Conducting a performance audit	Without controls, the value of any planning system is questionable.ZBB is no different. Once packages have been approved and funded, their execution must be judiciously monitored.

Source: Austin and Cheek (1979)

While the budgeting practice may seem a long process, it is highly likely to yield a more appropriate and realistic budget. Organisations may learn from the above table as suggested by Austin and Cheek (1979) in terms of the practical guidelines to follow.

3.5ROLLING BUDGET AND FORECASTING

In the interest of keeping budget targets relevant, the Rolling Budget and Forecasting system keeps the budget document alive. This means that budget targets are never fixed but are changed periodically. Organisations have an option to update their budget targets monthly or quarterly. The idea is that as soon as one period is finished, (a month or quarter) another period is added to keep a constant time horizon. Horngren, Forster and Datar (2000:182) suggest that in Rolling Budget and Forecasting managers have to rethink the process and make changes after each month or each period. This will lead to a more accurate, up-to-date budget, incorporating the most current information. Rolling Budget and Forecasting may be based on the premise that the macro- economic challenges demand that organisations keep abreast with the new developments in the economy to remain competitive.

3.5.1 Development of Rolling Budget and Forecasting

According to Neely *e. al* (2003:24), a Rolling Budgets and Forecasting solves problems associated with infrequent budgeting and hence result in more accurate forecasts;more responsive to changing circumstances, but requires permanent resource to administer; also overcomes problems linked to budgeting to a fixed point time – i.e. the year-end and the oftendubious practices that such cut-offs encourage.

Rolling budgets always involve maintaining a plan for a specified time period in the future. This result is achieved by adding a new time period in the future as the current time period that ended is dropped. Large companies, such as Electrolux and General Electric, prepare strategic plans and then integrate annual operating budgets that are divided into fourquarter rolling budgets, and smaller high-tech public companies, such as Keithley Instruments in Solon, Ohio, follow a similar pattern of planning Lynnand Madison (2004:60).

Managers can consider current economic factors and build them into the new period. Owens (1949:598) states that the idea of Rolling Budgets and Forecasting has been around for many years. However, Ekholm and Wallin (2000), Neely *et al*. (2001) and Serven (2002) suggest that organisations have only recently actively considered switching to this practice. The question of adaptability, flexibility and forecasting would largely be based on the level of predictability in the market an organisation competes in. Organisations that compete in markets that are characterised by higher levels of uncertainty ought to reforecast more frequently than organisations that compete in markets that are more stable.

Rolling Budget and Forecasting takes into cognisance the current economic environment and allows management to adjust figures accordingly. In a fixed budget environment, a manager may perform very well at the beginning of the year making his annual budget. In that instance the likelihood is that he maynot be further encouraged to stretch himself as annual targets are already achieved. However, in the Rolling Budget and Forecasting environment, a manager cannot relax in a similar way, simply because the targets change all the time to incorporate current market conditions. Figure 3.3 compares organisations that use Rolling Budget and Forecasting to those that do not use the Rolling Budget and Forecasting in terms of cost of budgeting per $1000 revenue. The study was done by The American Productivity and Quality Centre (APQC) (www.apqc.org).

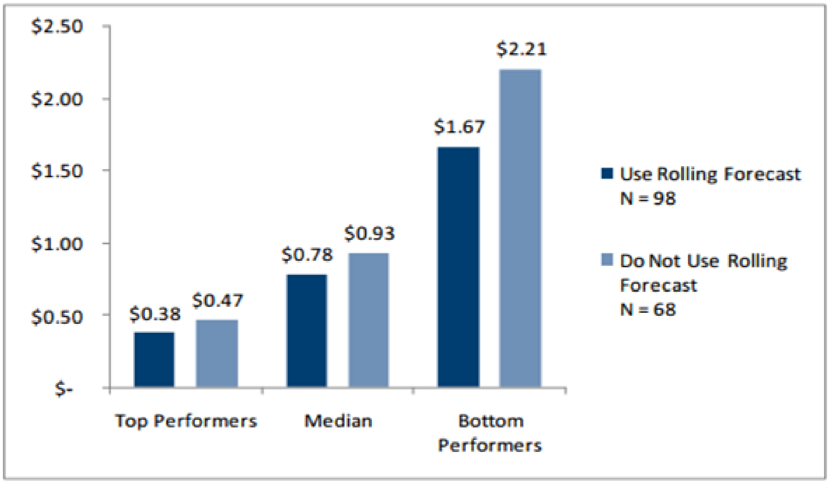


Figure 3.3:Total cost of budgeting per $1,000 revenue

Source:www.apqc.org[Accessed: 2012-09-20]

The graph in Figure 3.3 illustrates that the cost variance between companies that used Rolling Budget and Forecasting and those that did not, increases as one moves down the scale of performance.

In relation to the time required to prepare budgets, Figure 3.4 illustrates how organisations that implemented Rolling Budget and Forecasting took less time to complete annual budgets than those that did not. Again, AQPC conducted the study with the graphical findings depicted in Figure 3.4.

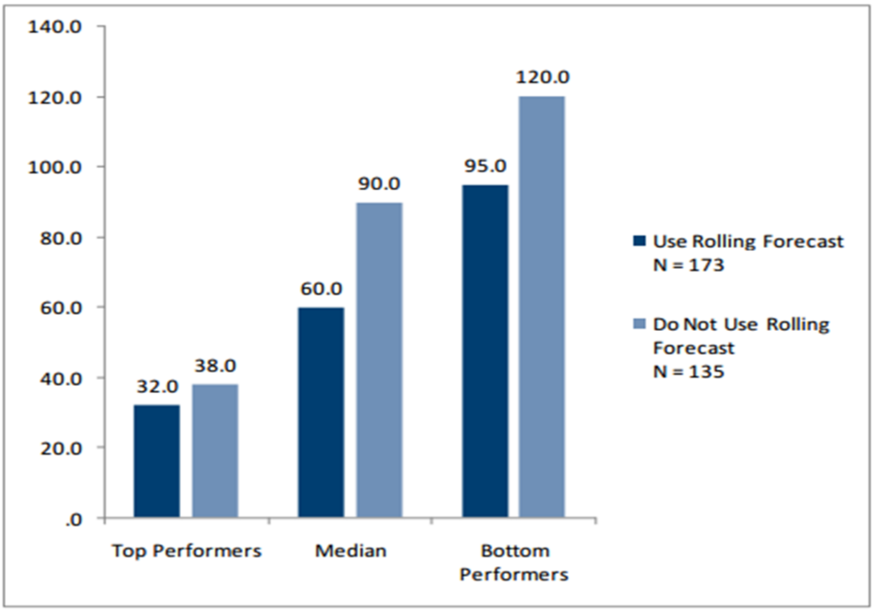


Figure 3.4:Cycle time in days to complete the annual budget
Source: www.apqc.org[Accessed: 2012-09-20]

Across all three types of performers, companies that implemented Rolling Budget and Forecasting experienced a significant decrease in the time required to complete the budgeting process.

3.5.2 Underlying principles

Rolling Budget and Forecasting considers an organisation's most recent monthly performance and any material changes to its business outlook or the economy.

Furthermore, managers may be encouraged to react more quickly to changing economic developments or business conditions.

Implementing the Rolling Budget and Forecasting budget practice may be done seamlessly, except that the exercise will have to be done more frequently (i.e. monthly or quarterly). The implementation may open up an opportunity for organisations to make changes by revising or re-engineering other business processes.

3.5.3 Benefits of Rolling Budget and Forecasting

Unlike Traditional Budgeting, in the Rolling Budget and Forecasting system, managers are encouraged to be innovative. Managers also have an opportunity to see their creativity incorporated into current budget numbers.Equally, problems are identified and corrected and the corrections are incorporated into the budget targets going forward.The study has identified the following benefits of this system adapted from existing theoretical literature (Horngren*et al.,*2000; Hope &Fraser, 2003a; Lynn &Madison,2004).

It is able to capture business challenges that might be presented by the rapidly changing and volatile economy. Top management has an opportunity to take remedial action and adjust the targets accordingly. It is a more accurate system that provides a more realistic view on the likely future cash flows in the business and it focuses attention beyond the annual finishing line, frees up managers' thinking and prompts them to look at risks and opportunities further into the future.

3.5.4 Limitations of Rolling Budget and Forecasting

Lynn and Madison (2004:60) claim that implementing Rolling Budgets and Forecasting means leveraging new technological resources such as software. However, it is important to note that software is only the technology and not the solution; It is simply a tool that provides management the opportunity to develop solution sets. Therefore, top management still has to plan carefully for the implementation of Rolling Budget and Forecastingand ensure that employees are adequately trained. Lynn and Madison (2004) further say, if this is not done correctly, problems such as non-acceptance of the Rolling Budget and Forecasting can be expected. The author has identified the limitations of a Rolling Budget and Forecast below.

The organisation might have to empower staff and allocate permanent resources to update figures. The system may require an investment in software, which can be costly, especially for smaller organisations. To yield the expected results, the integrity and trust of staff has to be maintained. Intensive training has to be provided, especially for non-financial staff. The perception that the organisation is chasing a moving target might be created.

3.5.5 Practical guidelines for prospective users

The aim of a Rolling Budget and Forecast is to keep the number of budget periods constant continuouslyLynn and Madison (2004:60). As soon as the first quarter is consumed and is reflecting actual results, the organisation has an opportunity to review budget targets incorporating current economic dynamics, thereby adding another quarter at the end of the period.

J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
B	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*												
A	*A*	*A*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*									
Quarter 1			*A*	*A*	*A*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*						
			Quarter 2			*A*	*A*	*A*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*			
						Quarter 3			*A*	*A*	*A*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*	*B*
									Quarter 4														

Figure 3.5:Rolling forecast guideline

Source: Prepared by the author

As depicted in Figure 3.5, periods indicated as "B" portray budget targets and "A" show actual results. The 12-month budget period commences with all periods representing budget targets. This is represented in four quarters i.e. January to March, April to June, July to September, and October to December. When the first quarter is consumed and is reflecting actual results, the organisation has an opportunity to review the current business economic outlook and incorporate relevant changes into the new plan to be added onto the end of the budget period. The new quarter is then added at the end.

3.6BEYOND BUDGETING

According to Daum (2002:1), the typical statements made with regard to Traditional Budgeting include; "too complex", "takes too long", "too inflexible, we cannot adapt quickly enough to the market", "does not motivate you to set yourself ambitious targets", and even "the budget is the bane of corporate America" (Jack Welsh, General Electric), and "the budget is a tool of repression" (Bob Lutz, Chrysler)". Daum (2002:1) states further that even financial controllers complain, saying that the budget process takes much effort and no one is really interested in it. The founding fathers of the Beyond Budgeting system are Jeremy Hope and Robin FraserDaum (2002:1). They have written books and articles on this concept, providing examples of companies that have adopted Beyond Budgeting. Table 3.4 contains the list of companies that have gone the route of Beyond Budgeting.

Table3.4: Companies that have gone Beyond Budgeting

Organisation	Industry	Country of Origin
Ahlsell	DIY Retail	Sweden
American Express	Financial Services	USA
Beth Israel Deaconess Medical Center	Health Care	USA
Coloplast	Medical products	Denmark
dm drogerie-markt	Drug retail	Germany
Egon Zehnder International	Executive recruitment	Switzerland
W.L. Gore and Associates	Multi-products manufacture	USA
Google	Internet search	USA
Guardian Industries	Float glass manufacture	USA
Handelsbanken	Universal bank	Sweden
HCL Technologies	IT Services	India
Hilti	Building products	Liechtenstein
John Lewis Partnership	Retail	UK

Organisation	Industry	Country of Origin
Leyland Trucks	Truck manufacture	UK
Nucor Steel	Steelmaker	USA
Southwest Airlines	Airline	USA
Statoil	Oil and gas	Norway
Sydney Water	Water utility	Australia
Telekom Malaysia	Telecommunications	Malaysia
Telenor	Telecommunications	Norway
Toyota	Car manufacture	Japan
Whole Foods Market	Natural foods retailer	USA

Source: www.bbrt.org/beyond-budgeting/ (2012)

The above companies' major criticism of budgeting is that the annual budgeting process is incapable of meeting the demands of the competitive environment in the information age. A positive aspect of the Beyond Budgeting movement is that these companies have various activities in place that are aimed at assisting users who are evaluating and implementing the system. These activities include sharing knowledge, international exposure and a step-by-step guideline.

3.6.1 Development of Beyond Budgeting

Hope and Fraser (2003b:212) define Beyond Budgeting as a set of guiding principles that, if followed, will enable an organisation to manage its performance and decentralise its decision- making process without the need for Traditional Budgets. The purpose of Beyond Budgeting is to enable organisations to meet the success factors of the information economy e.g. to be adaptive in unpredictable conditions.

Hope and Fraser met at the Consortium for Advance Manufacturing – International CAM-I's 25th anniversary meeting in 1997 after they both spoke on the problems of budgeting. It was this meeting that led to the Beyond Budgeting Round Table (BBRT) (Daum, 2002:1).

Accordingly, in late 1997, Hope and Fraser set up the BBRT working together with a Consortium for Advance Manufacturing – International (CAM-I), an international research consortium.

The BBRT is funded by annual subscription fees and discretionary sponsorships of projects of particular interest (Jones & Dugdale, 2002:131). The interest of sponsors stems from their growing dissatisfaction and frustration with Traditional Budgeting. Although the BBRT originated in the UK, it has members from many countries including Belgium, France, Germany, Holland, Norway, South Africa, Sweden, Switzerland and the US. Hope and Fraser teamed up with CAM-I because they could benefit from CAM-I's existing membership network and expand into North America. The idea was to find companies that had already gone Beyond Budgeting and to see how they had managed to do so.

The inception of Beyond Budgeting was motivated by a desire to address a myriad of limitations emanating from the use of conventional budget practices. These limitations led to a growing frustration among users of the Traditional Budgeting processes. The Beyond Budgeting concept was specifically aimed at eradicating the Traditional Budget process. The Beyond Budgeting concept is premised at completely re-engineering management control within organisations to improve performance and to achieve the seamless and viable management of the organisation. Beyond Budgeting does not revamp the existing Traditional Budgeting process, it abandons it altogether Hope and Fraser (2003b).

The strides made by the Beyond Budgeting Round Table movement since its inception, are depicted in Figure 3.6.

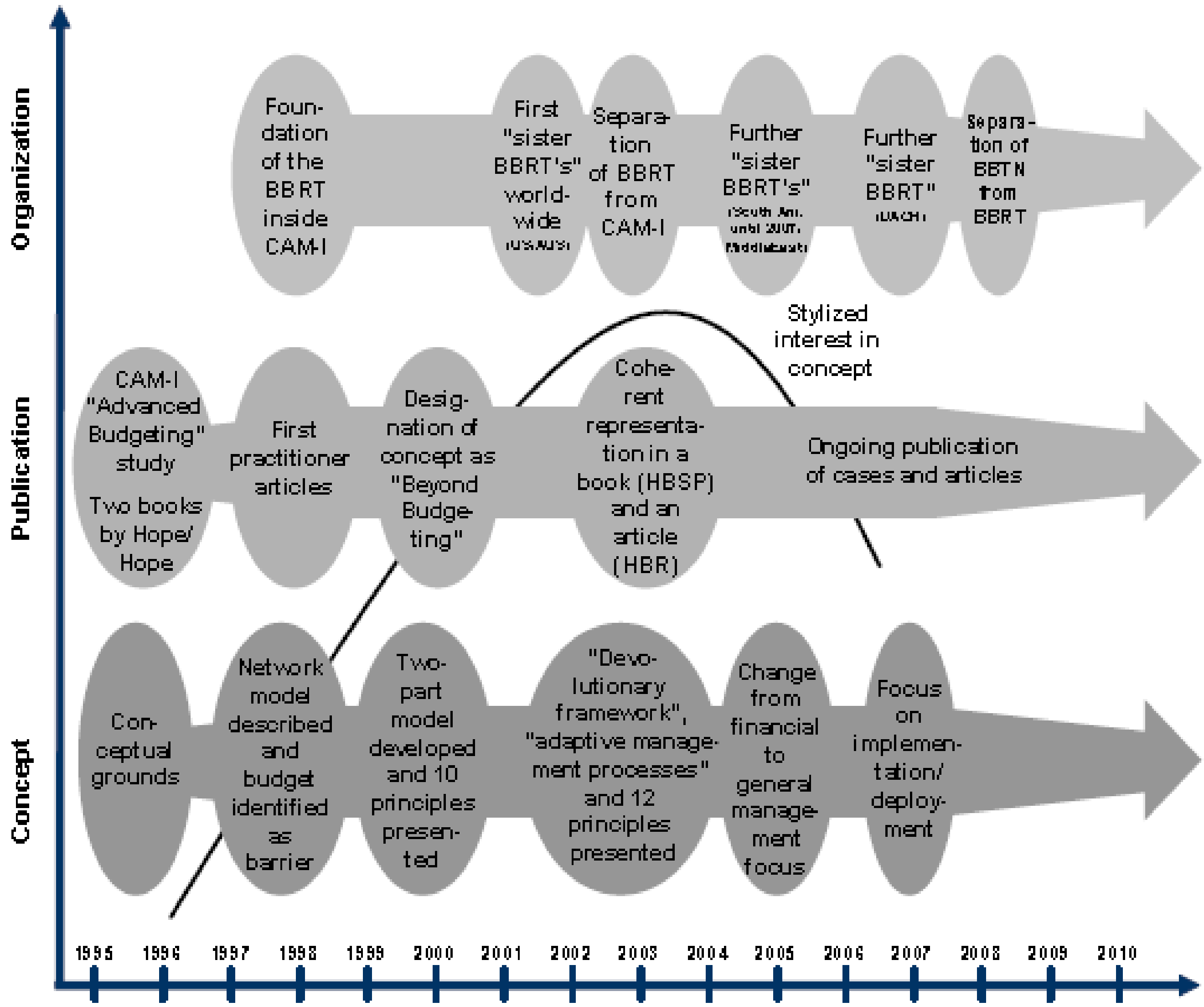


Figure 3.6:The progression of Beyond Budgeting movement

Source: Becker, Messner and Schaffer (2009:55)

According to the above graphical illustration the BBRT movement and the Beyond Budgeting concept has been around for over a decade. However, the curve reflects a declining slope, representing declining interest in the concept. This declining slope in the interest in concept may be viewed as that budgeting remains a cornerstone management tool in most organisations.

3.6.2 Underlying principles

The base structure driving the Beyond Budgeting practice is that organisations follow a set of principles that releases them from the so-called annual performance trap that Traditional Budgeting is associated with. These principles include the use of benchmarking and other forms of relative performance evaluation; the replacement of annual plans by Rolling Forecasting; increased decentralisation of decision-making; and other means through which employees are empowered (Hope & Fraser, 2003b; Bogsnes, 2009). According to Hope and Fraser (2003b:70), breaking free from a fixed performance contract is the key to unlocking stretch targets, implementing adaptive processes and eradicating most of the undesirable game-playing that pervades the budgeting process. The six principles of managing with adaptive processes examined by Hope and Fraser (2003b:70) are as follows:

Table 3.5: Change in adaptive process – Beyond Budgeting

CHANGE IN PROCESSES	
Goals Set	Aspirational goals aimed at continuous improvement, not fixed annual targets.
Rewards	Reward-shared success based on relative performance, not on meeting fixed annual targets.
Planning	Make planning a continuous and inclusive process, not an annual event.
Resources	Make resources available as required.
Co-ordination	Co-ordinate cross-company actions according to prevailing custormer demand.
Controls	Base controls on effective governance and on a range of relative performance indicators.

Source:Hope and Fraser (2003b:70)

Hope and Fraser (2003b:70) state that the expected results from applying the above principles include setting aspiration goals, reducing gaming, encouraging ambitious strategies and fast response, reducing waste, improving customer service, and promoting learning and ethical behaviour. The adaptive change process highlighted above by Hope and Fraser (2003b) seem to suggest a number of things an organisation will have to be alert about before embarking or converting to Beyond Budgeting.

Hope and Fraser (2003b:143) claim that evidence from research cases suggests that there are six principles that leaders should adopt. These are depicted in Table 3.6.

Table 3.6: Change in leadership – Beyond Budgeting

CHANGE IN LEADERSHIP	
Values	Govern through a few clear values, goals and boundaries.
Performance	Create high performance climate based on relative success.
Transparency	Promote open information for self-management
Organisation	Organise as a network of lean, accountable teams
Autonomy	Give teams the freedom and capability to act
Customers	Focus everyone on improving customer outcomes.

Source: Hope and Fraser (2003b:144)

The practical implementation of the principles in Table 3.6 effectively leads to the transfer of responsibility from the centre to individual business units. The aim is to enable and encourage local decisions where employees are free to make mistakes and find solutionsHope and Fraser (2003b:144).

Hope and Fraser (2003b:144) further suggest that the two fundamental elements of the Beyond Budgeting model are firstly new leadership principles based on the principle of the empowerment of managers and employees, and secondly new, more adaptive management processes. The new leadership principles should unlock the full potential of managers and employees to enable the organisation to react in an appropriate way and as quickly as possible to new opportunities and risks in the market environment. The CAM-I BBRT refers to this as devolution. Adaptive management processes are not based on fixed targets and resource plans such as the budgeting model. Instead, they enable an organisation to obtain a high degree of flexibility (www.bbrt.org) [Accessed: 2012-09-20].

3.6.3 Benefits of Beyond Budgeting

Undoubtedly, traditional methods of budgeting have presented problems, especially in today's rapidly changing environment. Hope and Fraser (2003b) have done a lot of academic and practical work in favour of Beyond Budgeting. The below table contains the benefits of switching to Beyond Budgeting, as presented in Table 3.7. (www.bbrt.org) [Accessed: 2012-09-20]

Table 3.7: Benefits of Beyond Budgeting

Benefit	Description
Faster response	Beyond Budgetingorganisations operate with speed and simplicity. Simplicity comes from reducing complexity in the management process. This can best be achieved by giving front-line people the scope to act immediately and decisively within clear principles, values and strategic boundaries. Operating within a flexible network is also important to enable people to respond quickly to customised requests by reconfiguring processes. Making strategy an open, continuous and adaptive process is the key element in a fast-response organisation. It enables an organisation to react to emerging threats and opportunities as they arise, rather than being constrained by a fixed and outdated plan. Underlying all these approaches is the shredding of bureaucracy that still plagues most organisations.
Innovative strategies	In Beyond Budgetingorganisations, people work within an open and self-managed environment. Clear governance principles set the right climate and build the mutual trust needed to share knowledge and best practices. This is encouraged by moving away from incentives based on fixed performance targets locked into the budget (a formidable barrier to sharing and cooperation) to rewards based on performance relative to the peers.
Lower costs	Only by seeing the process as supplier-customer relationships will people respond to demands for improvement in quality and cost. Only by eradicating the mentality surrounding traditional budgets (that fix a floor and ceiling on costs) will people be motivated to question fixed costs and seek sustainable long-term cost reductions. Operating managers and front-line people are able to base requests on resources as needed rather than viewing them as "entitlements". Just asking the question, "does it add value to the customer?" often ensures that unnecessary work is eliminated.

Benefit	Description
More loyal customers	Beyond Budgeting organisations place customer value needs at the centre of their strategy and adapt their processes to satisfying and even delighting them. Fast response to customer requests is vital. Front-line people must have the authority to make quick decisions and manage their own bit of the business so that the overall organisation becomes much more competitive than its competitors.

Source: www.Beyond Budgetingrt.org/beyond-budgeting

The BBRT movement places an emphasis on the turnaround time of decision-making, especially at front-line management. This level interacts with the customer base more often than any other level in the organisation. When line managers are empowered, they are apt to feel motivated and more likely to be innovative in their area of focus. The movement suggests that this system is bound to save costs and encourage customer loyalty(www.bbrt.org) [Accessed: 2012-09-20]. The thorough presentation of the Beyond Budgeting concept in this study intends to fairly present this concept as an option available to any organisation. It is the view of this study that decision-making involves a thorough analysis of alternative options to allow an informed decision.

3.6.4 Limitations of Beyond Budgeting

According to Michael (2007:9), several accounting academics have identified the following limitations in adopting the Beyond Budgeting approach:

- lack of a road map, which details where a business is and where it wants to go; and
- budgets may be very deeply ingrained in an organisation's fabric and operating culture. It may be very difficult or impractical for organisations to adopt the culture of decentralisation on which successful Beyond Budgeting depends.

The above bullet points touch on the very advantages provided by budgeting by giving an idea of what will happen in the future. Moreover, without budgeting, it would be difficult to do a position assessment and figure out whether corrective measures are necessary or not.

3.6.5 Practical guidelines for prospective users

Like any other management tool, the chosen approach for implementing a budget system is guided by the culture, size and complexity of that particular organisation. However, through research interviews of more than one hundred managers at all levels that have implemented Beyond Budgeting,according to their website the BBRT movement has accumulated some guidelines to help prospective users. According to BBRT, there are seven essential steps to a journey of the Beyond Budgeting approach(www.bbrt.org) [Accessed: 2012-09-20].

Table 3.8: Seven steps journey to an empowered and adaptive organisation

No.	Steps	Description
1	Think like a revolutionary	Management and the culture it supports is the only sustainable competitive advantage remaining (in a digital world all others can be quickly copied).
2	Build an urgent case for change and convince the board.	You need to convince senior executives that this is the right path to take and explain what it means.
3	Establish a "guiding coalition"	You need to establish a "guiding coalition" of 10–12 key people who are capable of creating and communicating the vision for change and then guiding the implementation process. They will also need the scope and authority to make important decisions.
4	Establish a number of "design teams" responsible for designing and implementing the model.	These teams will apply the principles of Beyond Budgetingto the design of an appropriate management model. One approach is to focus teams responsible for designing the new model on the three teams who are accountable, iethe executive team, support-services team and value-centre team.By thinking through the new roles and responsibilities of each team and then designing the right governance and accountability models, as well as the right goal setting, planning, resource management and reporting systems to fit their needs, the bulk of the new model will become clear.
5	Train and educate	Each new team needs to be trained and educated to operate with the new model.
6	Look for quick wins	It is important for leaders to identify quick wins to build credibility and maintain momentum.
7	Consolidate the gains and maintain the momentum	Leaders should always look to create more value centres and reduce the size of support services and operating process teams. They can also move experienced people around so that they become "ambassadors" for the new model.

Source: www.Beyond Budgetingrt.org/beyond-budgeting

Hope and Fraser (2003b:95) argue that successful Beyond Budgeting implementation needs top management to drive the initiative from the front. Hope and Fraser suggest that top management must first identify needs for change, with the benefits fully explained. As this system is based on decentralisation, top management needs to make a clear assessment of the organisation and determine if decentralisation is workable. A decentralised business environment calls for front-line teams to be given the freedom to take decisions within agreed parameters. This call must be based on trust and openness at all levels of the organisation. Once systems are put in place, issues of governance fall into place with clear priorities and boundaries. A high performance ethos based on visible and relative success at all levels is necessary.

As the second leg of the problem statement of this study, seeks to establish what do organisations feel is the future of budgeting – is it Traditional Budgeting, Better Budgeting or Beyond Budgeting? It is the intention of this study to then provide a detailed analysis of Traditional Budgeting, Better Budgeting and Beyond Budgeting. This study aimed at providing a platform for an informed decision.

3.7MECHANISM OF MANAGEMENT ACCOUNTING TOOL DIFFUSION

Over the last two decades, a number of new management accounting innovations have been introduced in the field of management accounting. Concepts such as ABC, Activity Based Management (ABM), Target Costing, Strategic Cost Management and Economic Value Added (EVA™) are now part of material regularly included in standard textbooks (e.g. Horngren, Foster & Datar, 2000), and have also been gradually introduced into practice (Ax &Bjørnenak 2005:3).

Adoption of any management tool, such as management accounting innovations in this case, requires proper planning and a diffusion process. In the field of management accounting, diffusion refers to the rate at which managers accept or adopt a new management accounting tool or provide reasons for the delay in accepting or adopting a new management accounting tool (Yazdifar & Askarany, 2008:4).

The research findings in the study by Yazdifar & Askarany (2008:2) suggests that managers and practitioners should seek a better understanding of the nature and characteristics of new management accounting techniques they are planning to adopt. One must bear in mind that an organisation would have existing management accounting tools implemented already, which means that a new tool would be an addition to the existing management tools.

A successful implementation and acceptance of a new management accounting concept requires a well-managed diffusion process. Factors negatively affecting the diffusion of management accounting innovations may include a lack of top-management willingness; the emphasis on financial accounting and the dominance of computer-based accounting systems; organisational strategy and structure; and the influence of communication channels (Yazdifar & Askarany, 2008:2). In Figure 3.7, Kubicek (as quoted in Weber & Linder, 2005:21) explains the mechanisms for achieving coordination.

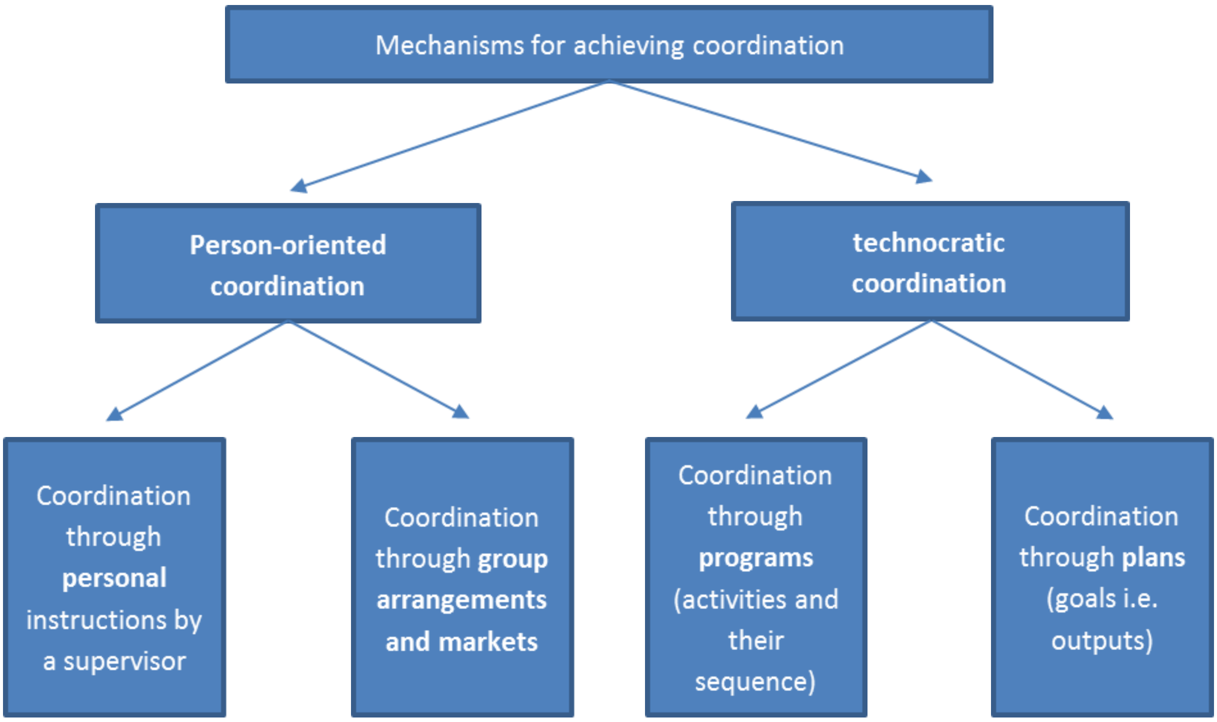


Figure 3.7:Mechanisms for achieving coordination

Source: Adapted from Weber and Linder (2005:21)

Kubicek (in Weber & Linder, 2005:21) analysed a vast amount of organisational theory literature and identified a total number of four alternative mechanisms or instruments to facilitate coordination. Table 3.9 provides details of these mechanisms as identified by the authors.

Table 3.9 Alternative mechanisms or instruments for coordination

No.	Mechanism	Description
1	Face-to-face instructions by supervisors	In this mechanism, coordination is through personal instruction by supervisors to individuals.The instructions may be specific to achieve specific goals and the full responsibility resides with the supervisor.
2	Mutual adjustment processes between individuals, groups or organisations (coordination through market forces)	In this mechanism the responsibility for ensuring proper coordination of activities resides not with an individual but with a group of people.
3	Programs	The activities in this mechanism are explicitly defined in advance, meaning individual activities in a certain situation and their respective sequence are fixed and provide those carrrying out the activity with little scope for interpretation.Coordination through programs is better known as bureaucracy.
4	Plans or budgets	While fixing the way an employee is thought to accomplish a certain task by predetermining every action and the sequence of all activities in detail, plans (e.g. budgets) describe only the outcomes to attain.In actual fact, plans do not fix the process for attaining them.

Source: Adapted from Kubicek (in Weber and Linder 2005:22)

Kubicek (in Weber & Linder 2005:22) indicates that in order for management tools to achieve ultimate coordination within an organisation, one needs to balance more than one dependency. There is no single management tool than can be said to be better than the other in achieving coordination within an organisation. Weber and Linder (2005:22) suggest that there is general consensus in organisational theory literature that the effectiveness and efficiency of the four alternative mechanisms depend on the context or environment in which they are used. It is suggested by this study that Better Budgeting or Beyond Budgeting, may rely mainly on one of these mechanisms, the same is likely to hold true for budgeting practices.

The significance of achieving coordination in implementing a system or a new management tool is viewed by this study to be important. An organisation may be very complex in nature and this may be influenced by the different personalities of personnel working in the organisation. In some cases deliverables are expected in groups, which means that people have to work together as a unit to achieve certain goals. This study therefore recommends that an organisation needs to have systems, processes and procedures in place that have to be followed to achieve certain results.

Yazdifar and Askarany (2008:2) suggest that managers and practitioners ought to seek a better understanding of the nature and characteristics of any new management accounting techniques that they are planning to adopt. Therefore, if an organisation intends to implement a new management tool, for example, adopting a new budgeting practice, that organisation may be required to have a good understanding of that budgeting practice. This may further require the understanding of how managers and employees will accept or react the new innovation. The process of matching or fusing the new innovation with existing organisational systems may need to be done systematically.

Rogers (2003:5) defines diffusion as the process by which innovation is communicated through certain channels over time among the members of a social system. To put it into context, this relates to the manner in which top management introduces and communicates the new management tool in the organisation. Rogers (2003:169) identifies five decisions an individual will go through before embracing the innovation:

Table 3.10: Individual decision-making process for embracing innovations

No.	Mechanism	Description
1	Knowledge	A person becomes aware of an innovation and has some idea of how it functions.
2	Persuasion	A person forms a favourable or unfavourable attitude towards the innovation.
3	Decision	A person engages in activities that lead to a choice to adopt or reject the innovation.
4	Implementation	A person puts an innovation into use.
5	Confirmation	A person evaluates the results of an innovation-decision already made.

Source: Rogers (2003:169)

Similarly, in choosing and implementing budgeting practices, organisations may need to be mindful of the diffusion mechanism. This suggests that even the best or most appropriate budget practice still requires appropriate change management processes; otherwise, the organisation might be running a risk of not appropriately implementing the system.

Rogers (2003:172) also lists five characteristics that many successful innovations have in common, shown in Table 3.11.

Table 3.11Characteristics for a successful innovation

No.	Characteristics	Description
1	Advantageous	They offer a relative advantage over current practice.
2	Compatible	They are compatible with important existing norms and values.
3	User friendly	They are of low complexity in terms of their understanding or use.
4	Flexible	They can be experimented with.
5	Tangible benefits	Their use and benefits can be easily observed.

Source: Rogers (2003:172)

The likelihood of successful adoption depends on how well the concept is aligned with existing norms and how much it allows for adaptation to local needs – what Benders and Van Veen (2001) call interpretative viability. Other factors outside the control of an organisation, that may have a significant influence, include academics, business consultants and professional organisations. These external factors may contribute in creating, modifying, shaping, promoting, ignoring or resisting the concept (Ax &Bjørnenak 2005:9).

Top-management commitment and support may be a key factor in the adoption and successful implementation of new cost and management accounting techniques. However, the top- management commitment and support may be more effective if it is backed up by sufficient top- management insight. They need to know about the new techniques implemented in their company and be able to communicate this to others.

3.8CONCLUSION

In turbulent times, an organisation has to be managed to withstand sudden blows and to avail itself of sudden unexpected opportunities. To achieve this, it is necessary for the South African business community to keep abreast of the latest innovations. In reality, there is no one-size-fits-all solution. Organisations are characterised by a number of factors, including their size, culture, technology and nature of business. Therefore, it is inevitable that budgeting practices will have to be customised for an organisation's needs.

This chapter looked at three contemporary budgeting practices that organisations can adopt and one rather radical alternative that seeks to eradicate budgeting altogether. These management accounting innovations remain available for different types of organisations because they can be tailor-made to fit their environment. Organisations may decide to implement just one budgeting practice or perhaps even try all of them. What would count the most is the nature of business of a particular organisation.

This study proposes that the South African business community obtain a thorough understanding of each practice before considering its adoption. This proposal is based on the shortcomings presented by Traditional Budgeting.

The development, principles, as well as benefits and limitations for each practice, were highlighted in this chapter and these may appeal to different organisations. The ABB is said to be very useful in aligning the business strategy with business activities that are refined and value-adding to the organisation. ZBB provides a clean slate to justify a new budget, thus eliminating previous budget inefficiencies. A Rolling Budget and Forecasting budget practice is useful in ensuring that budget targets are fresh and relevant. The literature provides evidence of large organisations that have actually done away with budgeting through the adoption of Beyond Budgeting.

Implementation of management tools is likely to fail if the diffusion characteristics of that particular innovation are not managed properly. Regardless of the type of budget practice that is adopted, certain general mechanisms must apply in the introduction of the budget practice. First and foremost, top-management support is crucial to the success of any budgetary practice. Even though top management may not realise the important role they play in budgeting, their philosophy toward budgeting soon filters down in the company. If they view the budget as some mechanical process that must be completed as quickly as possible, employees are less likely to give budget preparation much attention. The budgeting process is also likely to fail if management views budgeting as a scapegoat on which all the company's problems can be blamed.

However, if management considers the budget as a means to facilitate planning and takes an active role in the execution of budgets, the company is more likely to gain all the benefits that the budgeting process offers. If participation is conducted properly, it should build acceptance of the budget by those who are responsible for meeting the budget. When used properly, budgets may pave the way to higher morale and a better working relationship among employees and management. The successful implementation of a new budgeting practice may rely on the human behaviour within an organisation. The next chapter focuses on the implications of human behaviour in budgeting.

CHAPTER4

HUMAN BEHAVIOUR IN BUDGETING

4.1 INTRODUCTION

In truth, even an well-prepared budget document does not guarantee success in any organisation or even translate to a successful implementation because documents alone are incapable of doing anything. The success of a document, a budget-document in this case, is mostly reliant on the efficacy of those who developed it and those who implement it. Like any other management tool, if budgets are to benefit an organisation, they need the support of all the organisation's employees. Horngren *et al.,* (2006:284) suggest that the attitude of top management will heavily influence lower-level employees and managers' attitudes toward budgets.

According to Horngren *et al.,*(2006:199),top managers must convince their subordinates that the budget is a positive tool that is designed to help them chooseand reach goals**.** Budgets are not remedies for weak management talent, a faulty organisation or a poor accounting system.

Consideration of human behaviour in budgeting is crucial. Organisations can put together a world-class budget document, but without the effective management of employees who are responsible for implementing the budget, chances of acceptance and success might be compromised. Horngren *et al.,*(2006:284) say that to avoid negative attitudes towards budgets, accountants and top management must demonstrate how budgets can help each manager and employee achieve better results. Horngren *et al.,*are of the opinion that budgets should be viewed positively by all.

This chapter focuses on certain issues that may arise regarding the impact of human behaviour in budgeting.

The chapter starts by looking at the concept of a comfort zone, an environment in which all human beings would generally like to perform. The management and running of an organisation also means dealing with different personalities within an organisation. Organisations have budget targets that are linked to individual performance, as well as budget targets that are linked to a group of individuals, i.e. business-unit targets.

Lower-level employees tend to mirror the behaviour of top management, especially when a new system is implemented. Therefore, the commitment of top management in the use of budgets is critical. When top management reflect commitment in budgets, it should be easier to disseminate the energy to lower levels. In all, the use of budgets by top management will affect the success of the implementation. The effective management of human behaviour is at the centre of the successful implementation of a budget system.

4.2 COMFORT ZONE

According to human nature, people develop a behaviour called the comfort zone. A comfort zone can be in any area of our lives, including the workplace. A comfort zone is a behavioural state within which a person operates in an anxiety-neutral condition, using a limited set of behaviours to deliver a steady level of performance, usually without a sense of risk (White, 2009). A person's personality can be described by his or her comfort zone. For that reason, behaviour within the workplace can contribute positively to creating a productive and harmonious environment in which staff can be inspired to achieve their full potential. However, when behaviour is inappropriate or dysfunctional, it may have serious consequences regarding productivity, job satisfaction and regarding the physical and psychological well-being of staff.

It is view of this study that when managers meet budget targets they will feel relaxed and comfortable. Therefore, performing within set budget targets is likely to create a comfort zone for managers. The opposite may be true: i.e.when managers do not meet budget targets,they may feel uncomfortable. Some managers may be feel comfortable to set themselvesstretched budget targets. On the contrary, managers who have established a comfort zone with a particular range of targets will tend to stay within that zone without stepping outside of it, for example by setting loose budget targets. This study defines loose budget targets as one that are easily achievable and created in order to provide a cushion for unexpected events.

4.3 PERSONALITY DYNAMICS

Personality differences play a vital role in budget implementation. Some people work well individually and other in a group. It is the responsibility of top management to understand employee dynamics and to allocate employees accordingly. Morse *et al.,* (1972:200) say it is important for management to recognise the effects its chosen tools and techniques have on the behaviour of the people in the organisation. Dynamics need to be observed for individuals and groups. As an example, cost-centre managers may have certain budget targets that they have to achieve individually. Equally, business-unit managers may have budget targets that need to be achieved by the business unit as a whole (a group).

The manner in which individual managers would react to budgets targets may differ. Horngren *et al.,* (2006:284) state lower-level managers sometimes regard budgets as embodiments of restrictive, negative top-management attitudes. Employees and managers with such sentiments with regard to budgets will have to be managed accordingly. Top management may need to educate employees and managers continuously on the benefits of budgeting.

Within the business-unit, group and individual dynamics may be even more challenging. The business- unit manager has the responsibility to ensure that the business unit always pulls in one direction, despite different demands from different managers.

4.4 TOP-MANAGEMENT COMMITMENT

Human beings have a tendency to follow in the steps of their superiors. At the workplace, junior and middle management behaviour is likely to emulate that of top management. Therefore, for top management to instil discipline, it is expected to lead by example. If top management is ill disciplined, lower levels are also likely to follow suit. With regard to budgeting, the success of a budget program will follow a high degree of buy-in and commitment from top management.

On the contrary, if top management does not respect the budget program, there is no chance that lower levels will show any respect. Garrison, Noreen and Brewer (2008:374) pin down that if a program is to be successful, it must have the complete acceptance and support of the persons who occupy key management positions. Horngren *et al.,* (2006:200) actually suggest that part of top management's responsibility is to promote commitment among the employees to a set of core values and norms. These values and norms describe what constitutes acceptable and unacceptable behaviour.

4.5 USE OF BUDGETS

Budget targets are meant to guide and control the organisation in achieving longer-term objectives. Budgetary control measures are put in place by organisations to ensure that the ship is still on the right trajectory and to serve as early signals should there be a need for remedial action. Top management must ensure that employees feel comfortable about budgetary control measures that are established. These control measures must serve as tools to support employees. Garrison *et al.,* (2008:374) state that, in administering the budget program, it is particularly important that top management does not use the budget to pressure or blame employees. Using budgets in such a negative way will breed hostility, tension and mistrust rather than cooperation and productivity. Therefore, top management may need to exercise caution in the use of budgets.

4.6 CONCLUSION

Budget acceptance and success needs the cooperation and participation of all members of the organisation. Faithful – but not mindless – adherence to and enthusiasm for the budget plan by top management is the basis for the success of budgets. Too often, a budgetary plan fails because top management has paid lip service to its execution. Often no one but the person who created a budget knows anything about it or has interest in it. In addition, the budgeting principles are often emphasised without giving much attention to the human factors, i.e. educating personnel about the important benefits of the budgeting process.

Personality differences play a vital role in budget implementation.A person's personality can be described by his or her comfort zone. Behaviour within the workplace can contribute positively to creating a productive and harmonious environment in which staff can be inspired to achieve their full potential in administering a budget program.Garrison *et al.,*(2008:374) suggests that it is particularly important that top management does not use the budget as a means to pressure employees or as a way to find someone to blame if something goes wrong.

The success of a budget program is based on a general acceptance by employees and the positive use of budgets by top management. Top management should exercise caution in administering budget programs, so as not to use budgets as a device to punish poor performance. The next chapter embarks on a research methodology this study has adopted in obtaining the empirical data.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

The aim of this study is to evaluate the most prevalent budgeting practice in the South African business community. The research methodology commences by describing the inquiry strategy and the broad design highlighting the research objectives. The data was collected electronically using an Internet link that was emailed to respondents. Upon receipt of the email, respondents had to click the link to access the questionnaire, attached as appendix 2.

The study uses Fisher's exact test to test for a relationship between independent variables and the question response pattern (Fisher 1970:96). To enable this kind of statistical analysis, independent variables had to be grouped into two options. Statistical frequency tables were developed and p-values calculated. The p-value must be less than 0,05 to be significant, a number greater than 0,05 signifies that there is no significant relationship between the variable and the response pattern.

5.1.1 Description of inquiry strategy and broad research design

The organisational sector, size, and culture tend to pose complexities for the use of a standard research instrument such as surveys in order to gather information about an internal management tool. This is largely owing to the fact that each organisation adopts and adapts a management tool for a specific purpose and to suit its particular business environment. Therefore, a standard research instrument will always have a degree of generalisation and assumptions that cut across different industries and organisational size.

Dealing with human beings has an element of inherent risk. Some respondents may not be willing to discuss such a topic openly, as it may be perceived as deliberately trying to portray a certain image about the organisation they work for.

The study therefore adopts a qualitative strategy of inquiry. This choice of research methodology is in line with methods used by other authors in the similar studies (De With & Dijkman, 2008; Centage/IOMA, 2007; Libby & Lindsay, 2007; Neely *et al.,* 2003).

In qualitative research, the researcher wants to find out not only what happens but also how it happens and, more importantly, why it happens the way it does (Henning, 2004:3). Qualitative research is typically used to answer questions about the complex nature of phenomena, often focussing on describing and understanding a phenomenon from the point of view of respondents (Leedy & Ormrod, 2010:94). Similarly, this study seeks to understand the most prevalent budgeting practice in the South African business community with regards to Traditional Budgeting, Better Budgeting and Beyond Budgeting.

5.1.2Sampling

The need for sampling according to Saunders, Lewis and Thornhill (2009:212) arises when it would be impracticable to collect data from the entire population. The authors further state that this is equally important whether you are planning to use interviews, questionnaires, observation or some other data collection technique. This study has as its target population the South African business community. Henry (1990) (quoted in Saunders *et al.,*2009:212) argue that using sampling makes possible a higher overall accuracy than collecting data from the entire population. He says the smaller number of cases for which you need to collect data means that more time can be spent designing and piloting the means of collecting data from fewer cases; it also means that you can collect information that is more detailed. In line with Henry's arguments, the study recognises the impracticality of collecting data from the entire population, hence sampling was used.

5.1.2.1Target population

A provision is made for the testing of significance in differences in the perception of respondents at various levels of seniority in the company hierarchy. In the survey research, targeted respondents assume the role of a key informant, and provide information on an aggregated unit of analysis by reporting on organisational properties rather than personal attitudes and behaviours. The targeted respondents are experienced financial personnel at different levels of seniority. The criterion to qualify as an experienced financial person in this study requires that the potential respondent have:

- a three year accounting/financial degree or diploma with three years consecutive relevant experience; or
- a degree/diploma other than in accounting/financial with at least five or more years of consecutive relevant experience.

The relevant experience is defined as practical experience in the budgeting process. It is not necessary for a potential respondent to have acquired all the practical experience within the same organisation.

5.1.2.2Sampling method and size

The choice of sampling technique is based on the feasibility and sensibility of collecting data to answer the research question and to address the objectives from the entire population. This study adopts a self-selection sampling technique, which allows each organisation to identify their desire to take part in the research. Emails are sent to qualifying respondents requesting their participation. The email contains with an electronic link to the survey questionnaire,which electronically collects data from those who respond. Sandelowski (1995) points out, "determining adequate sample size in qualitative research is ultimately a matter of judgement and experience". In their empirical research on organisations listed on the Amsterdam Stock Exchange, De With and Dijkman (2008:26) selected 134 companies and a number of 44 i.e. 33% self-selected to participate in the research. Organisations that self-select to participate do so because of their feelings or opinions about the research questions or stated objectives.

5.1.3Data collection

Within business and management research, the greatest use of questionnaires is made within the survey strategy (Saunders*et al*., 2009:360). The term questionnaire has a variety of definitions, according to deVaus 2002 (quoted by Saunders *et al*., 2009:360). A questionnaire is a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order.

This study adopts the questionnaire technique for data collection on the basis that each person is asked to respond to the same set of questions, it also provides an efficient way to collect responses from a large sample prior to quantitative analysis. The noted downside of this technique lies on the ability to produce a good questionnaire that will collect precise data that is required to answer the research questions and achieve the objectives.

Saunders *et al.,* (2009:362) claim that the design of a questionnaire will affect the response rate and the reliability and validity of the data collected. They further list points to be considered to maximise response rate, validity and reliability as follows:

- Careful design of individual questions;
- Clear and pleasing layout of the questionnaire;
- Lucid explanation of the purpose of the questionnaire;
- Pilot testing; and
- Carefully planned and executed administration.

The e-mail questionnaire included in Appendix 2 consists of two sections. The first section has questions 1 to 9 and it covers the characteristics and structure of budgeting, the second section consists of questions 10 to 32 and these questions intend to ascertain the value of budgeting. The e-mail questionnaire was available in English only and was sent to the heads of departments and the lower levels of each organisation. Some of the section heads forwarded the questionnaire to a person whom they felt would be in a better position to complete it. A letter of consent from the university, attached as Appendix 1, was included in the e-mail, explaining the purpose of the questionnaire. The questionnaire was approved by the Faculty of Economic and Management Sciences Ethical Committee as being ethically acceptable.

The questionnaire design was reviewed by an expert in the statistics department at the University of Pretoria, and adjusted according to her comments. The pretesting was done by sending the questionnaire to six random respondents.

This study has adopted the Likert scales, which consist of a set of items to which the respondents responds with agreement-disagreement. Summated rating scales are preferred to single rating scales because they tend to have better reliability. It is named after its creator, psychologist Rensis Likert, (Kumar, 2011:108). On a survey or questionnaire, the Likert scale typically has the following format:

- Strongly agree,
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Kumar (2011:108) also lists the following advantages of using the Likert scales:

- It is simple to construct Likert scales
- Likert scales can be used in many cases
- It is more reliable than other scales
- The range of agreement-disagreement responses permitted with Likert scales may make respondents more comfortable in indicating their position than the simple agree versus disagree choice forced by Thurston scales.

5.1.4Data analysis

The analysis of qualitative data is aimed at the examination of that data from various angles to construct a rich and meaningful picture. Saunders *et al.,* (2009:480) define qualitative analysis as all non-numeric data or data that have not been quantified and can be a product of all research strategies. Mouton and Marais (1996:103) suggest that data can be systematised in a meaningful manner by means of analysis and interpretation. Mouton and Marais (1996:103) add that there are two ways of systematising data meaningfully, i.e. by way of deductive strategy and inductive strategy. In the inductive strategy, the research embarks upon a research project with a clear conceptual framework in mind. This may be a model, a theory, or a typology or a set of explicit hypotheses. With regard to the deductive strategy, the researcher would embark upon the project without an explicit conceptual framework, and merely use general and vague hypotheses or guesses to guide the research. The research of this nature is far less structured.

This study uses an inductive strategy, which means it is based on a clear conceptual framework, i.e. the existing theory is used to shape the direction of the research. Budgeting is a very well researched concept with rich academic theory and has been in practice for decades. Recent studies conducted on budgeting have been based on its existing theory with varying views on its application. This is evidenced in the recent studies by De With and Dijkman (2008); Centage/IOMA (2007); Libby and Lindsay (2007); Horváth and Sauter (2004); Hope and Fraser (2003a); and Neely *et al.* (2003). Similarly, this study uses the existing budget theory as a base and investigates the budgeting practices in the South African business community. This approach links the research into the existing body of knowledge in the subject area.

To ensure a systematic and apt data analysis the electronically collected data is statistically prepared for analysis. Once the data is prepared, the next step is to quantify the qualitative data using statistical analysis. This is done in instances where there is a count of frequencies of certain events or particular reasons that have been given. The use of statistical analysis will assist in providing a very useful supplement to the principal means of analysing qualitative data. The use of statistical processes is aimed at supporting the interpretation of data from which conclusions and recommendations can be derived. The next chapter discusses the empirical results analysis as garnered from participating respondents.

CHAPTER 6

EMPIRICAL RESULTS ANALYSIS

6.1INTRODUCTION

In this chapter, the study presents the analysis of the empirical research results on current budgeting practices at South African organisations.The intention of this study is to address the problem statement as indicated in chapter one. The problem statement is two-pronged. Firstly, do organisations still budget? Secondly, what do organisations feel is the future for budgeting – is it Traditional Budgeting, Better Budgeting or Beyond Budgeting?

Budgeting has been the crux of business planning for decades. However, it has been in the spotlight the last few years where academics and managers have questioned its value-add in business given the rapidness and dynamism of the economy. Though budgets are useful for coordination, communication, and performance evaluation, they have attracted a degree of criticism. Traditional Budgeting has been criticised for time consuming, costly to develop, and a barrier to change. The published criticism about Traditional Budgeting as well as research studies already conducted in other countries such as the US, UK and Asia motivated this study to investigate the budgeting practices in the South African business community.

6.2DETAILED ANALYSIS OF THE QUESTIONNAIRE RESULTS

In November 2012, questionnaires were sent via e-mail to respondents who, based on job title, were likely to be involved in the budgeting process. The respondents included cost/management accountants, financial/administration managers, senior financial managers/controllers, chief financial officers/financial directors and others as deemed appropriate. Respondents were asked to respond to questions based on their position in the organisation.

Two-thirds of the respondents i.e. 67 percent are employed by mining and manufacturing organisations with the balance employed by service companies, such as financial services, consulting and education. The study reveals that respondents had been involved in budget preparation for an average of six years.

Respondents were also asked to indicate their level of education; an overwhelming 90% indicated that they have obtained either a bachelor's degree or honours degree, with the balance indicating that they have obtained masters or doctorate degrees. Organisations of all sizes took part, with annual revenue ranging from less than R20 million to more than R50 million, encompassing the small, medium and large businesses. Small (<100 employees and <R20 million turnover), medium (<200 employees and <R50 million turnover) and large (>200 employees and >R50 million turnover).

6.2.1 Descriptive characteristics of the budgeting process

The first part of the survey instrument asks for descriptive information regarding the budgeting process at the respondent's organisation. Specifically, the study sought to understand how budgets were developed; how often they were developed; how they were subdivided and what budgeting practice(s) was used. The table below reflect the results;

Table6.1: Descriptive characteristics of the budgeting process

Characteristics	Results (%)
We use a participative budgeting approach	67
Our budgets are developed once a year	75
Our budgets are subdivided into months	90
Our budgeting practice is Activity Based costing	33
Our budgeting practice is Zero Based budgeting	38
Our budgeting practice is Rolling budget and forecasting	43
We have adopted the Beyond Budgeting concept	0

The above table reflects that South African organisations use a participative budgeting approach. This is represented by 67 percent of the respondents who support this statement. Expectedly, the budgeting process is an annual event and budgets are subdivided into months. Subdividing budgets in months enable organisations to track or control performance on a monthly basis. This allows organisations enough time to make and effect corrective actions to get back to the budget.

The research results suggest that South African organisations have moved away from Traditional budgeting practices and adopted Better Budgeting. This is reflected by 33 percent of organisations that have adopted the Activity Based Budgeting, 38 percent Zero Based budgeting and the majority have adopted the Rolling budget and forecasting. It is not surprising to note that the majority has adopted the Rolling budget and forecasting. This budgeting practice is based on the idea that as soon as one period is finished, (a month or quarter) another period is added right at the end to keep a constant time horizon. Horngren *et al*., (2000:182) suggest that in Rolling Budget and Forecasting managers have to rethink the process and make changes after each month or each period.

The research results further reveal that South African organisations have not embraced the Beyond Budgeting concept.

6.2.2Usefulness and value of budgeting systems

The second part of the research questionnaire, attached as Appendix 2, consists of questions 10 to 32 that asked the respondents for their opinions regarding the usefulnessof budgeting systems in relation to specific business objectives as listed below:

- Strategic planning,
- Resource and operational planning,
- Operational control,
- Communication,
- Coordination or teamwork across subunits,
- coordination or teamwork across functional areas,
- Motivation, and
- Incentive rewards determination.

In line with the Likert Scales used in this study, respondents had to choose if they strongly agree, agree, are undecided, disagree and strongly disagree. Summated rating scales are preferred to single rating scales because they tend to have better reliability.

6.3STATISTICAL ANALYSIS

The study uses Fisher's exact test to test for a relationship between independent variables and the question response pattern. Statistical frequency tables were developed and p-values calculated. The p-value must be less than 0,05 to be significant, a number greater than 0,05 signifies that there is no significant relationship between the variable and the response pattern.

There are four variables that were included in the research questionnaire to test whether or not each variable has an influence in the response pattern. These are:

1. Current job,
2. Educational qualifications,
3. Level of experience and
4. Size of the organisation.

It is the view of this study that the response pattern should generally not be influenced by any of the above variables. This view emanates from the review of previous academic work conducted on budgeting practices where no evidence exists that the above variables could have an influence on the response pattern (Libby & Lindsay 2007, De With & Dijkman 2008). However, this study deemed it prudent to at least randomly select questions for testing. Twelve out of twenty-three questions were randomly selected. Of the randomly selected questions, only three questions were influenced by the independent variable.

The randomly selected questions were numbers 11, 15, 16, 17, 18, 19, 24, 28, 29, 30, 31 and 32 (refer to questionnaire in Appendix 2). In the discussion that follows, the tested questions and corresponding calculated p-values are discussed. Where a p-value is less than 0.05 it means the variable had an influence in the way in which the question was answered. In each case, a two way table is provided, reflecting the significance between independent variables and the question response pattern. Conversely, where a p–value is higher than 0.05 it means the variable had no influence in the manner in which the question was answered and therefore two-way tables are not provided.

6.4DISCUSSION OF RESULTS

This section discusses the results and is structured according to the research questionnaire.

6.4.1Current job

This is the first question in the questionnaire.Respondents were asked to indicate their current position.The study intended to obtain views from different seniority levels in organisations.This was to compare the views in the junior positions such asmanagement accountants who prepare budgets against the views of top management positions more involved with setting the targets and reviewing budgets like the chief financial officer or financial directors.The table below reflects the options and the respondents' responses.

Table 6.2: Current Job

Variable	Values		Absolute Frequency (n = 21)	Relative Frequency %
Current Job	1	Cost/Management Accountant	6	29
	2	Financial/Administration Manager	4	19
	3	Senior Financial Manager/Controller	5	24
	4	Chief Financial Officer/Financial Director	3	14
	5	Other	3	14

The study aimed to obtain a more comprehensive view across seniority levels. This includes those who are responsible for preparing budgets i.e. cost/management accountants and those in more senior positions tasked with reviewing and making sense of the budget targets. From the results, it can be seen that 29 percent of the respondents are cost/management accountants.

Cost/Management accountants spend more time on budget numbers than anyone else in an organisation. Those who prepare budgets play a pivotal role in the budgeting process, as they are responsible for receiving economic factors and budget guidelines from the corporate office. They apply these economic factors and budget guidelines to the process and ensure that information received from business units is in line with the guidelines. They also spend hours in the numbers ensuring the accuracy of the budget MS Excel spread-sheet and final consolidation and compilation of the budget pack.

Financial managers and senior financial managers can be viewed as the first line of review of the budget pack. This group is represented by 19 percent and 24 percent respectively. Decision makers and final signatories on the budget pack would be the chief financial officers/financial directors; this is represented by 14 percent. This is viewed as a perfect mix in terms of the job profile for the purposes of this study.

This question represents one of the independent variables used in determining if it influences the response pattern.

6.4.2 Level of education

In this question, respondents were expected to indicate their level of education. The intention was to ensure that respondents consist of a comprehensive mix and if the level of education had any bearing on the manner in which questions were answered. The table below reflects the results from the options that were given.

Table 6.3: Level of education

Variable	Values		Absolute Frequency (n = 21)	Relative Frequency (%)
Level of education	1	Grade 8 -12	0	0
	2	Diploma	0	0
	3	B-degree	10	48
	4	Honours degree	9	43
	5	Master's degree	1	5
	6	Doctorate degree	1	5

The majority of the respondents have a B-degree, closely followed by respondents with an honours degree i.e. 48 percent and 43 percent respectively. There were respondents with even higher qualifications, i.e. master's and doctoral degrees. The above table indicates that people involved in the budgeting process are graduates.

This question was used as an independent variable in determining if it influences the response pattern

6.4.3Years of experience

The study tested whether the number of years a respondent had been involved with the preparation of budgets would influence his or her response pattern.

Table 6.4: Years of experience

Variable	Values		Absolute Frequency (n = 21)	Relative Frequency %
Years of experience	1	≤ Three Years	5	24
	2	≤ Five Years	5	24
	3	≤ Eight Years	9	43
	4	≥ Ten Years	2	10

The questionnaire was completed by experienced respondents. Almost half of the respondents at 43 percent have been involved with budgeting for at least eight years with a further 24 percent for at least five years. Another 24 percent of the respondents have been involved with budgeting for three years and less. There are also 10 percent of the respondents with fifteen and more years of experience in budgeting. This table reflects the quality of the respondents.

This question was used as an independent variable in determining if it influences the response pattern

6.4.4Size of the organisation

Large organisations are generally more complex in organisational structures and processes than small to medium sized organisations. Therefore, technological systems as well as financial strength tend to set organisations apart. This study therefore wanted to test the opinions of large and SME organisations. Respondents were asked to indicate the size of their organisations, so that the views of respondents from different size organisations can be tested.

Table 6.5: Size of organisation

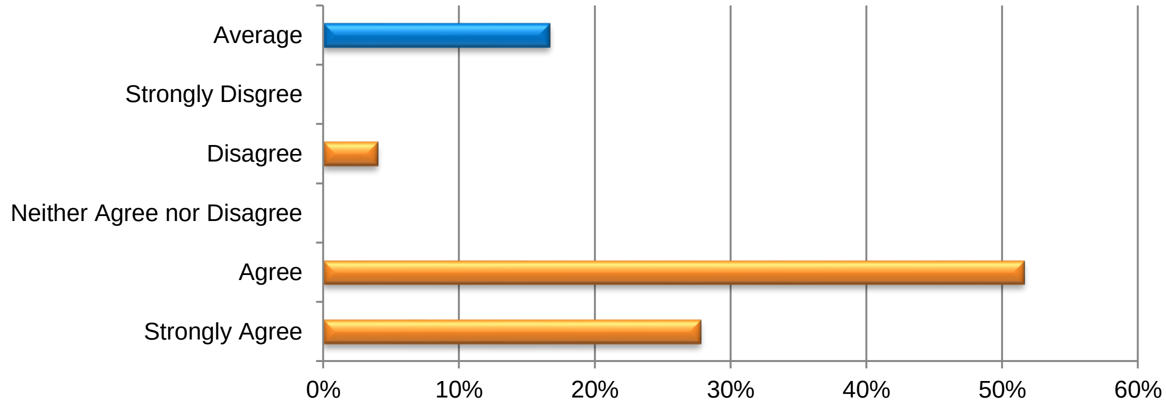
Variable	Values		Absolute Frequency (n = 21)	Relative Frequency %
Size of organisation	1	Small	2	10
	2	Medium	5	24
	3	Large	14	67

The criteria adopted in this study to differrentiate organisations in size was turnover and the number of employees. The majority of the respondents were from large organisations, reflecting 67 percent; 24 percent were from medium organisations with the minority from small organisations at 10 percent.

This question was used as an independent variable in determining if it influences the response pattern.

6.4.5Operational budgets are aligned with corporate strategy

The study conducted reveals that over 60 percent of South African businesses agree that operational budgets are aligned to corporate strategy. Of the 60 percent, 28 percentstrongly agree with the same fact. This is found to be in line with the definition of budgets as provided in Chapter two of the study. The study suggested that budgets are short-term plans derived from long-term plans of the organisation.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are in line with strategy	28%	52%	0%	4%	0%	17%

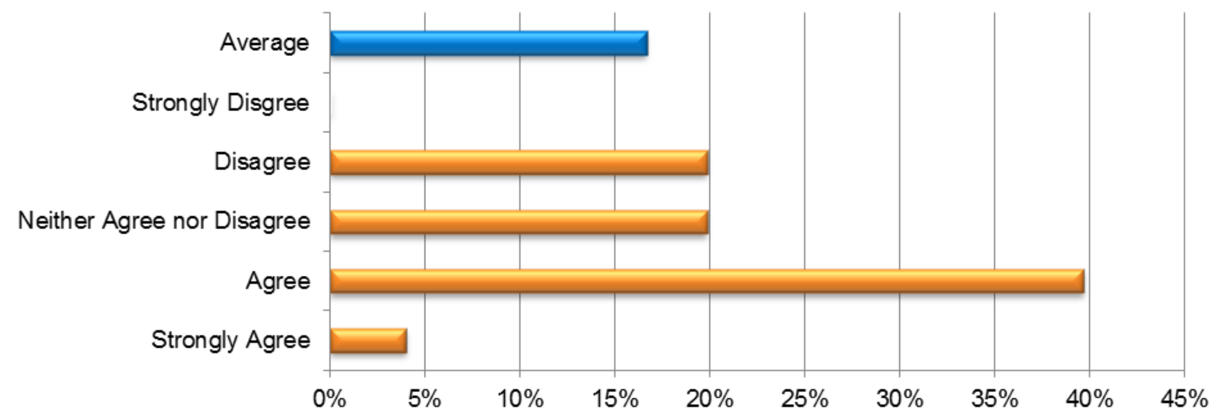
Figure 6.1:Operational budgets of the organisation are in line with theorganisation's overall strategy

Over 50 percent of the respondents agree with this statement supported by an additional 28 percent strongly agreeing. There is about 4 percent disagreeing, this percentage is below the 17 percent average. Drury (2004:549) states that budgets are concerned with the implementation of the long-term plan for the year ahead. The South African business community has supported this statement in a remarkable way.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.6 Easily attainable budget targets

The integrity of managers was tested in this question. Are managers willing to stretch themselves and their departments by setting difficult targets? Are managers honest enough to do what is best for the organisation by pushing themselves to the limit in setting what is reasonably possible?



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Targets are easily attainable	4%	40%	20%	20%	0%	17%

Figure 6.2: Business unit managers succeed in submitting budgets that are easily attainable

The results reveal that a majority of managers, i.e. 40 percent, would rather set targets that are easily attainable. A further 4 percent strongly agrees with this phenomenon. It should be noted that it is common practice for organisations to tie up bonus and promotion aspirations with the meeting of budget targets. This phenomenon, *inter alia* is what drives managers to a position of putting their goals and career development possibilities before the goals of an organisation. While the manager is setting loose targets for him to achieve, he/she does this at the expense of an organisation. Organisations should be striving for a position of goal congruence, where individual goals and those of an organisation are proportionately addressed. In their study De With& Dijkman (2008:29) asked a similar question to test if managers succeed in submitting budgets that are easily attainable, the results reflect 9percent strongly disagree, 52percent Disagree with 28percent undecided. The results of this study reflects an opposite of this view, however what is common is the amount of respondents who are undecided. This study therefore views this question as subjective in that it may depend on the manager concerned.

Statistically, the above question was not influenced by any of the independent variables. This is reflected by p-values as calculated in the below table. All of the calculated p-values are higher than 0.05.

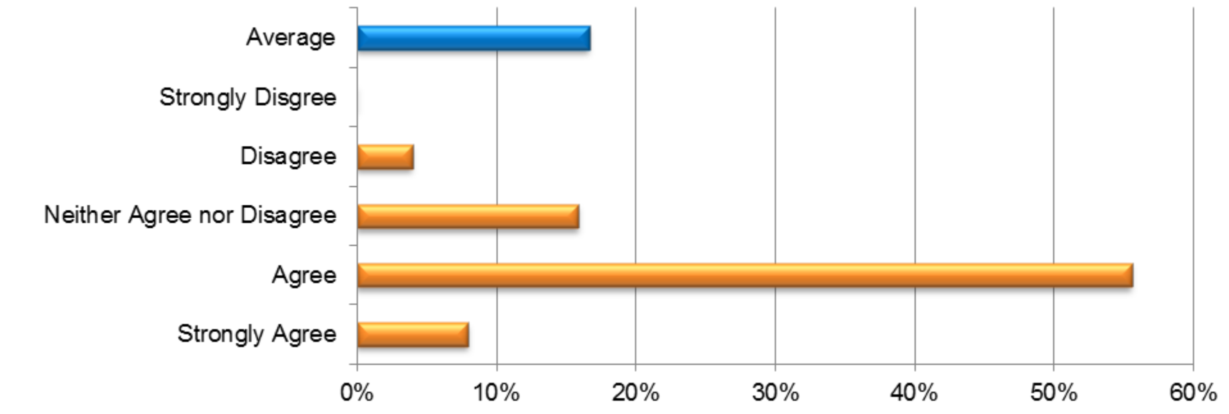
Table 6.6a: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.9081	0.3949	1.000	0.3615

The above p–values are higher than 0.05 signifying that there is no significant relationship between the independent variable and the response pattern.

6.4.7Budget targets increase productivity and stimulate innovation in the business unit

When managers are set a target to meet, it forces them to become more innovative, productive and forward thinking. Even more, when the manager knows that he/she was involved in setting the same target. Managers get involved in budget target setting when an organisation has adopted a participative budgeting approach. This research results of this study indicated that 67 percent of the organisations have adopted the participative budget approach.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets stimulate productivity	8%	56%	16%	4%	0%	17%

Figure 6.3:Budget target increases productivity and stimulates innovation in the businessunits

The study reveals that 56 percent of the respondents agree with this phenomenon. A further 8 percent of respondents strongly agrees. Organisations are likely to reap more benefits through various innovations that are developed by the managers within the organisation. A noticeable 16 percent of respondents are indifferent, maybe because other organisations are more strict and do not easily allow managers to be creative; they must follow the standard operating procedures of the organisation with limited or no room to manouevre outside the stardard procedure. Only a negligable 4 percent disagrees with the statement. The percentage of the disagreement is below an average of 17 percent.De With& Dijkman (2008:30) in their study found that 16percent strongly agree, 61percent agree with only 2percent not agreeing. The results of this study reflects a similar finding in the majority of the respondents agree with this question.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.8 Head office constantly reminds business unit managers of the need to meet budgettargets

The corporate office tracks performance by comparing budgets with actual results. This is done to ensure that performance is kept on an expected trajectory. As a control measure, monthly results and variance analysis are used as a reminder by head office to managers.

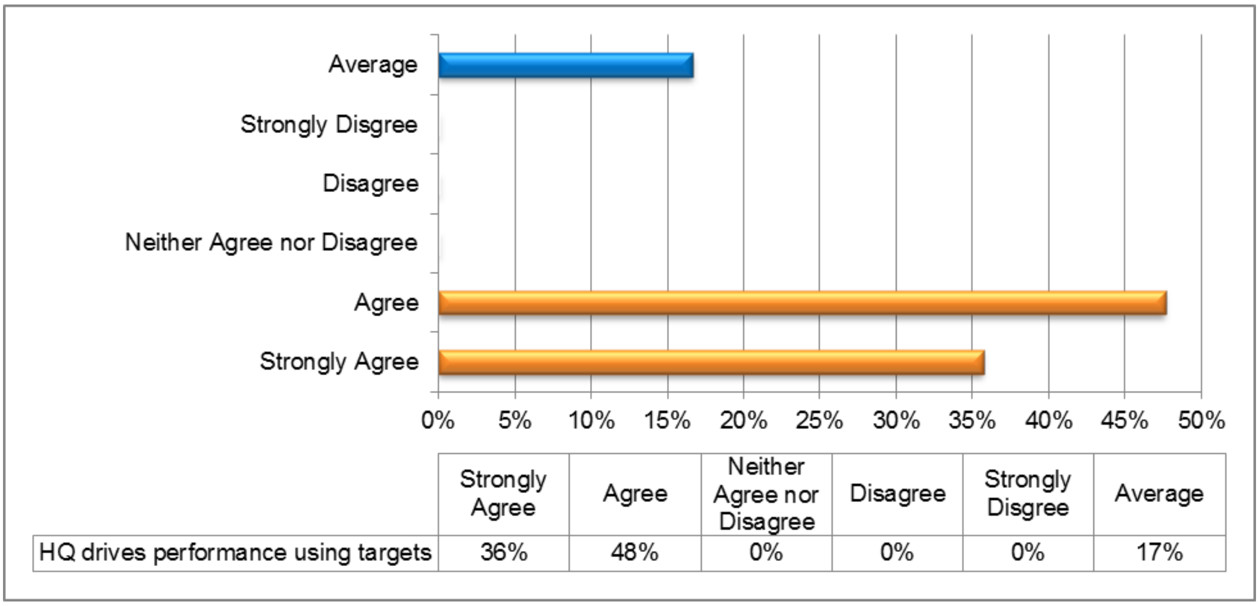


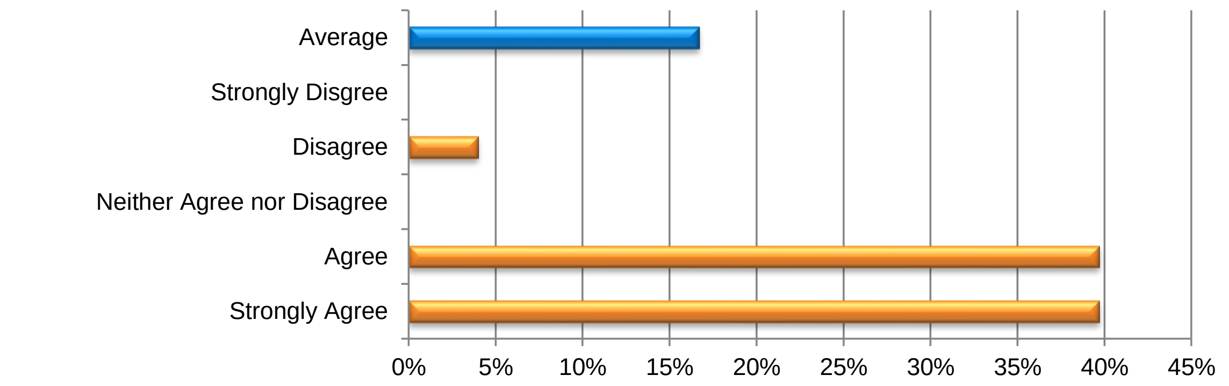
Figure6.4:Head Office constantly reminds business unit managers of the need to meet budget targets

There is general consensus with the view that Head Office monitors business units through performance against budget targets. The above figure confirms this view unanimously with 48 percent agreeing to this statement, the balance of the respondents, i.e. 36 percent, strongly agree. This result also confirms the reason why most organisations still rely on budgeting. A similar question was asked in the study oft De With& Dijkman (2008:30) and the findings reflected that 7percent strongly agree, 57percent agree with only 2percent not agreeing. The results of this study reflects a similar finding in the majority of the respondents agree with this question.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.9 Head office controls the business units by monitoring how well performance meets budget targets

The corporate office is constantly in control of business units by monitoring performance against the budget. This provides them with a level of comfort in that all is in order with the operations. Intervention measures will be picked up through this process and decisions will be made by head office to intervene where necessary.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
HQ controls BU performance using targets	40%	40%	0%	4%	0%	17%

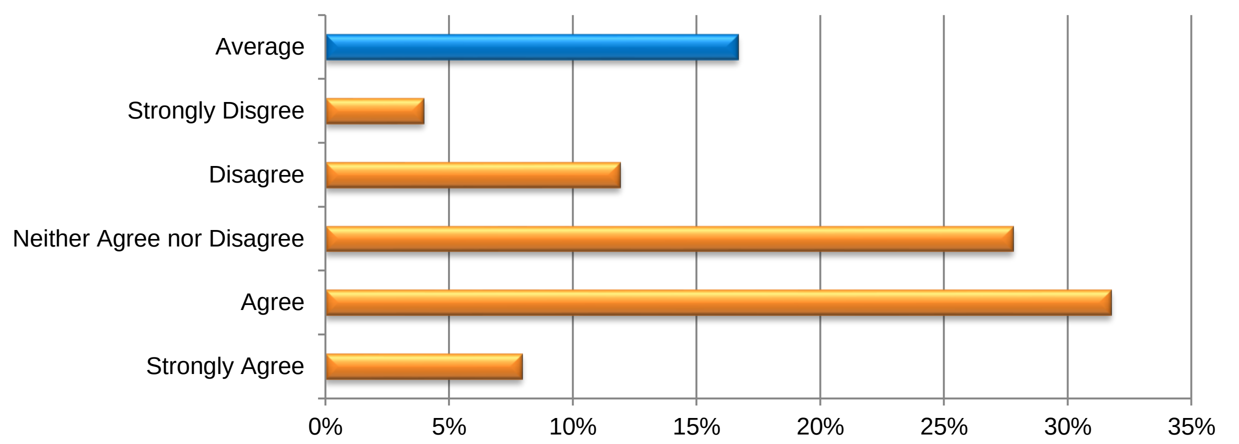
Figure 6.5:Head Office controls the business units by monitoring how well performance meets budget targets.

The majority of the respondents are in agreement, with just 4 percent disagreeing. Respondents believe that head office has control over business units and budgets are used to monitor business units. Organisations normally have monthly performance meetings with head office where each business unit manager presents his or her business unit to head office management. In this way, head office can exercise their power by suggesting intervention measures, should they deem them to be necessary.De With& Dijkman (2008:30) in their study found that 14percent strongly agree, 61percent agree with only 2percent not agreeing. The results of this study also indicate a majority of the respondents agreeing with this question.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.10 Promotion prospect of the business unit managers depend heavily on their ability to meet budget targets

Organisations tie bonus incentives, as well as promotion prospects to good performance. Good performance is defined as meeting or surpassing budget targets. Organisations reward good performance. Bad performance is performance that fails to meet budget targets and is punished by exclusion from the bonus incetive scheme.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Promotions prospects	8%	32%	28%	12%	4%	17%

Figure 6.6: Promotion prospects of business unit managers depend heavily on their ability to meet the budget target

The results reveal that 8 percent of the respondents strongly agree with a further 32 percent of the respondents supporting this statement. A sizable percentage of 28 percent remains indifferent to the statement, with only 4 percent disagreeing. The inference that can be drawn from this is that promotion prospects are aligned with good performance. Promotion prospects are generally not part of company policy or documented as a procedure, but is often at the discretion of top management. Therefore, the 28 percent of undecided respondents is likely related to organisations that do not have a written policy which directly links budget to promotion. In the study of Shastri & Stout (2008:20), the question was related to the use of budgets for incentives rewards and 68percent strongly agreed with a further 15percent agreeing with this question. Again, this study reflects the same line of results where the majority agrees. In the De With & Dijkman (2008:30), the results reflects that 30percent agree with a further 4percent strongly agreeing with this question. These findings are also in line with this study.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

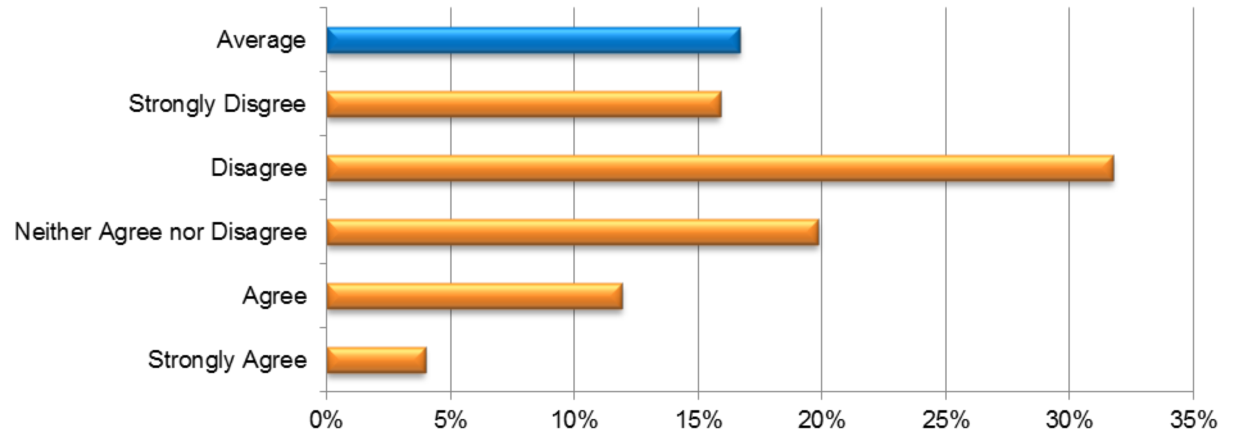
Table 6.6b: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.5175	0.1984	0.1000	0.1000

The above p–values are higher than 0.05 signifying that there is no significant relationship between the independent variable and the response pattern.

6.4.11Budget targets are relaxed to absorb business uncertainties

A relaxed budget target refers to the adjustments of set targets to accommodate unforeseen events during the budget period. This happens mostly in organisations that operate in highly volatile economic sectors such as importing/exporting, where the exchange rate is a major factor. However, most organisations tend to stick to budget targets, irrespective of the economic changes during the budget period. This view is largely supported in that the majority of respondents claim that budget numbers do not provide a room to capture changes in the economy.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Targets are relaxed	4%	12%	20%	32%	16%	17%

Figure 6.7: Budget targets are relaxed to absorb business uncertainties

The above graphical illustration suggests that once budget number are finalised, they are fixed for the budget period. Organisations do not open up budget targets during the course of the year in an attempt to accommodate changes in business variables. Such changes are normally addressed in forecast figures, which is a separate process from budgeting.

It can be deduced from the results that it is normal practice to keep the original budget figures intact while capturing changes in a separate format. The advantage of this method is that the organisation can always reflect on areas where they went wrong in their budget estimates or an organisation will be in a position to distinguish areas that are affected by external factors beyond the control of the organisation against areas resulting to poor performance by management. Contrary to the view of this study, De With& Dijkman (2008:33) found that 73percent of the respondents agreed to the question that budget targets are relaxed to absorb business uncertainty.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

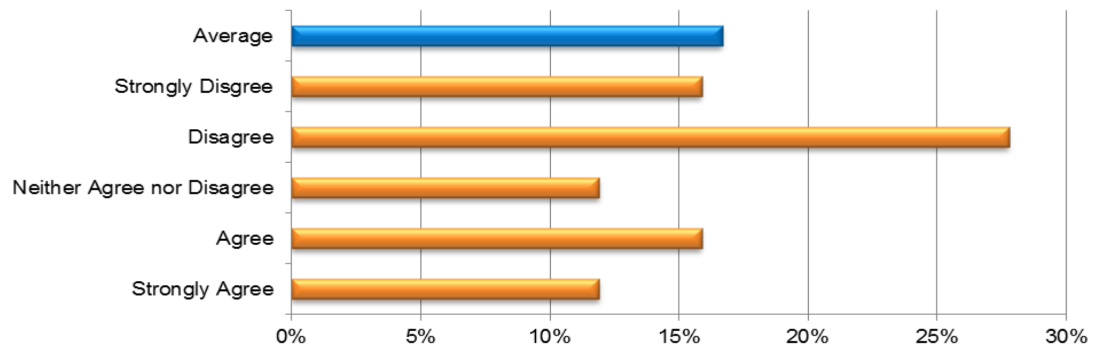
Table 6.6c: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.6331	0.3108	0.5937	0.5743

The above p-values are higher than 0.05 signifying that there is no significant relationship between the independent variable and the response pattern.

6.4.12 Business unit managers spend all excess money at year-end to avoid losing it in the next budget period

The issue of opportunity cost comes into play when budgeted funds are not fully utilised at the end of the year. Capital constraints and other limited resources within the organisation require a thorough analysis and ranking of value adding projects or activities. Capital budget may include business expansion or business sustainability projects. Business sustainability relates to maintaining or increasing the value of the business assets. Given this view, managers ought to be encouraged to spend their capital budget fully. The opportunity cost results because capital is a limited resource, especially during economic tough times. However, in no way does this study encourage haphazard spending towards the end of the year just because a manager does not want to end with an unspent budget.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Loosing unspent budget	12%	16%	12%	28%	16%	17%

Figure 6.8: Business unit managers spend all excess money at year-end to avoid losing it in the next budget period

To this end, the majority of the respondents do not agree that managers engage in unethical behaviour like the one asked in this question. The above figure reflects a great deal of integrity on the part of the managers. Managers spend mostly on those items that are necessary and in line with the budget program during the course of the year. It can be observed that 16percent of the respondents agree with a further 12percent strongly agreeing, which relates to 28percent who are in agreement with this statement. The view of this study is also confirmed in the study of Libby and Lindsay (2007:50) where they found that 20percent saying it nevers happens and 56percent saying only occasionally do managers engage in such an activity.

The statistical analysis reveals that the response pattern in this question was influenced by the level of qualification of the respondents. This variable reflects that a calculated p-value are lower than 0.05.

Table 6.6d: P-Values of Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.3117	0.0237	1.0000	0.3371

In the above table, there is one variable that reflects a p–value below the 0.05 level at 0.0237, signifying that there is a significant relationship between the level of education of an employee and the perception that business unit managers spend all excess money at year-end to avoid losing it in the next budget period.

The two-way statistical table for the Fischer Exact Test is displayed in Table 5.3a.

Table 6.6e: Statistical Table

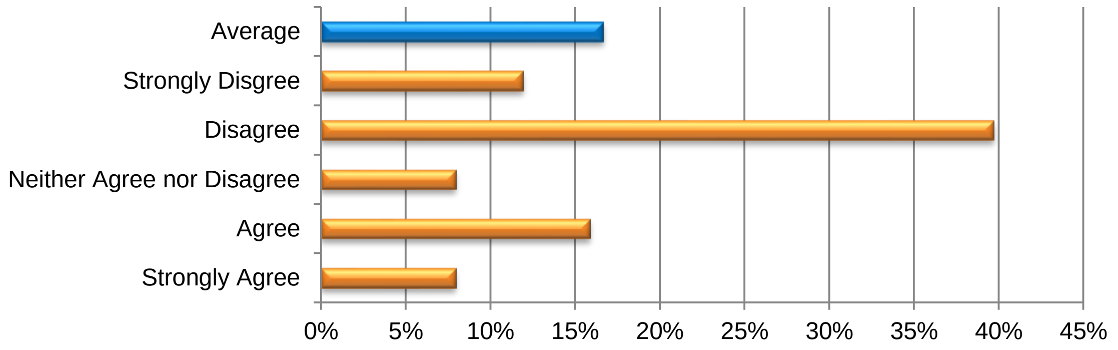
Variable	Values	Strongly Agree/Agree (%)	Undecided/ Disagree (%)
Level of Education	Undergraduate	60.00	40.00
	Postgraduate	9.09	90.91
	Total	**33.33**	**66.67**

Table 6.7a reflects a 60/40 split in the response pattern of undergraduate respondents with the majority agreeing with the statement. A complete view is noticed on the postgraduate respondents where a majority, i.e. 90.91 percent, disagree with the statement.

The study therefore draws an inference that people with a higher education think that the spending of excess money at year-end is not poor management and not done with the intention to avoid losing the money in the next budget period. It can also be stated that, as long as money is spent wisely and for the benefit of the organisation, it does not really matter when that money is spent even if it is spent towards the end of the year. The above referenced study of Libby and Lindsay (2007) may somewhat be linked to this phenomenon since it was conducted to highly qualified people. Libby and Lindsay (2007:48) sent their questionnaire to a professional institution, the Institute of Management Accountants Canada (IMA).

6.4.13 Business-unit managers defer certain necessary expenditure to reach budget targets

This statement suggests that business unit managers defer certain necessary expenditure to reach budget targets, indicating inappropriate or poor management, meaning that all budgeted items should be spent in the year for which they are budgeted. Exceptions are drawn where factors beyond control led to deviations. If a manager defers budgeted expenditure to remain within-target, it can only mean that certain items in his or her budget are overspent meaning the remaining budget cannot accommodate everything.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Deffered Budget	8%	16%	8%	40%	12%	17%

Figure 6.9:Business-unit managers defer certain necessary expenditure to reachbudget targets

About 40 percent, with a further 12 percent of the respondents disagrees with this view. Given this, the study draws the inference that managers would not engage in such an activity where important items like safety measures are overlooked in the interest of meeting budget targets. A manager that does this will be influenced by satisfying personal goals over the organisations goals. This becomes more critical in organisations that are highly regulated with regards to safety issues, like petrochemical and mining industries. Safety matters is an area of business where even budget overruns are expected by top management in the interest of protecting employees. In the study of Libby and Lindsay (2007:50) 52percent respondent that this activity occassionaly occurs, 38 percent were of the view that it occurs frequently and 9 percent said it never occurs. A slighly different view to this study where a majority disagree with this phenomenon.

There is however a notable 16 percent and 8 percent of respondents who agree and strongly agree with this behaviour. This seriously talks to the misalignment in the goal congruence i.e. the ambitions of a manager exceeding those of an organisation.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

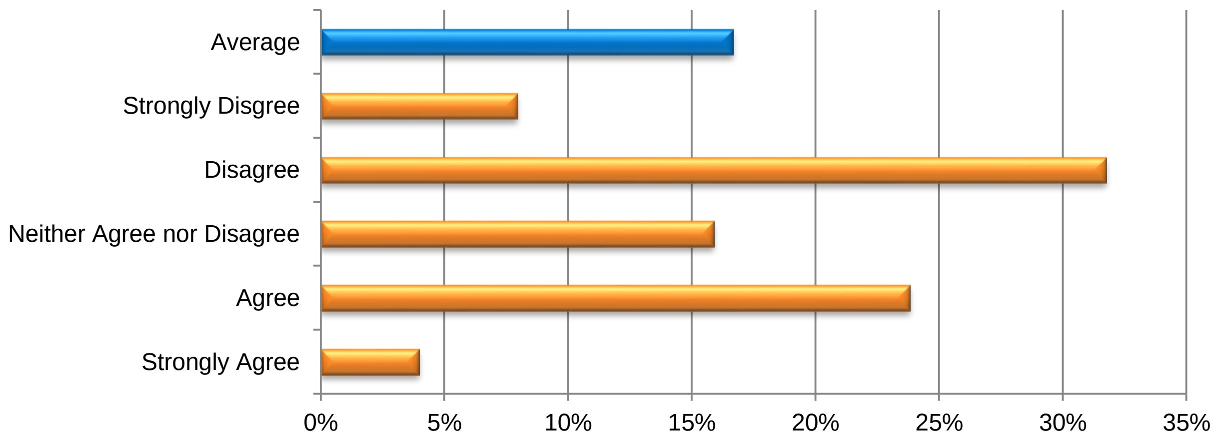
Table 6.6f: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.9104	0.3615	0.0798	0.6126

The table reflects that the response pattern in this statement was not influenced by any of the independent variables. This is illustrated by calculated p-values that are all higher than 0.05.

6.4.14 Business unit managers accelerate sales near year-end to make the budget target

In general, organisations are likely to implement different strategies towards year-end to achieve certain targets. Accelerating sales is one of the strategies that could be implemented. The key is that as long as that is done within the processes and policies of an organisation there is nothing wrong with it.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Accelerated Sales	4%	24%	16%	32%	8%	17%

Figure 6.10: Business unit managers accelerate sales near the year-end to make the budget targets

The majority of the respondents disagrees that managers will accelerate sales towards year-end to meet budgets. This is represented by 32 percent respondents disagreeing with a further 8 percent that strongly disagrees. The inference that can be drawn from this graph is that managers are generally prudent in doing their job. They do not engage in unsuitable behaviour in the interest of self-enrichment.

However, 24 percent of the respondents believe this does happen with a further 4 percent who strongly agrees with this view. It can be concluded that such behaviour sometimes takes place in line with the company policies. It is possible that the organisation can benefit from accelarated sales. In the study of Libby and Lindsay (2007:50) 41percent respondent that this activity occassionaly occurs, 19 percent were of the view that it occurs frequently and 40 percent said it never occurs. A slighly different view to this study where a majority disagree with this phenomenon. These findings are in line with the findings of this study where the majority disagrees with this phenomenon.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

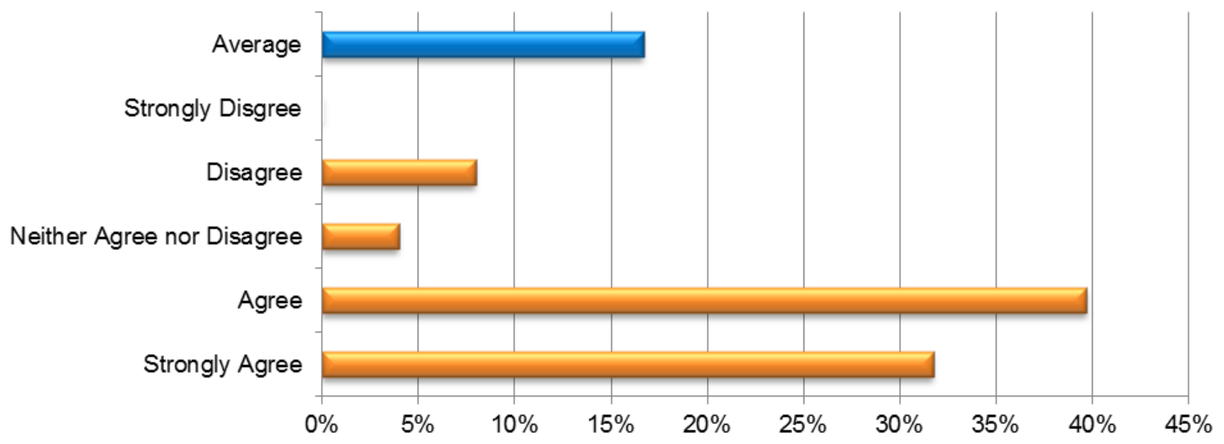
Table 6.6g P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.6700	0.1827	0.0798	0.3371

The independent variables did not affect or influence the response pattern in this statement. All p-values are reflected as higher than 0.05.

6.4.15Budgets assist our organisation in planning operational activities

In Chapter two, it was indicated that budgets are short-term plans aligned with corporate strategy. Budgeting therefore plays a pivotal role in the organisation-wide planning process. The planning process talks to the vision and mission of an organisation, it ensures that departmental plans are designed in an orderly manner to collectively work towards achieving one vision. Planning affords an organisation an opportunity to do its position analysis and gauge that to the outside market. During the planning process, organisations visit their sales and marketing strategies, financial strategies, business development and production strategies. All these are thoroughly analysed and designed to work in harmony to achieve an organisation's wide strategy.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Planning	32%	40%	4%	8%	0%	17%

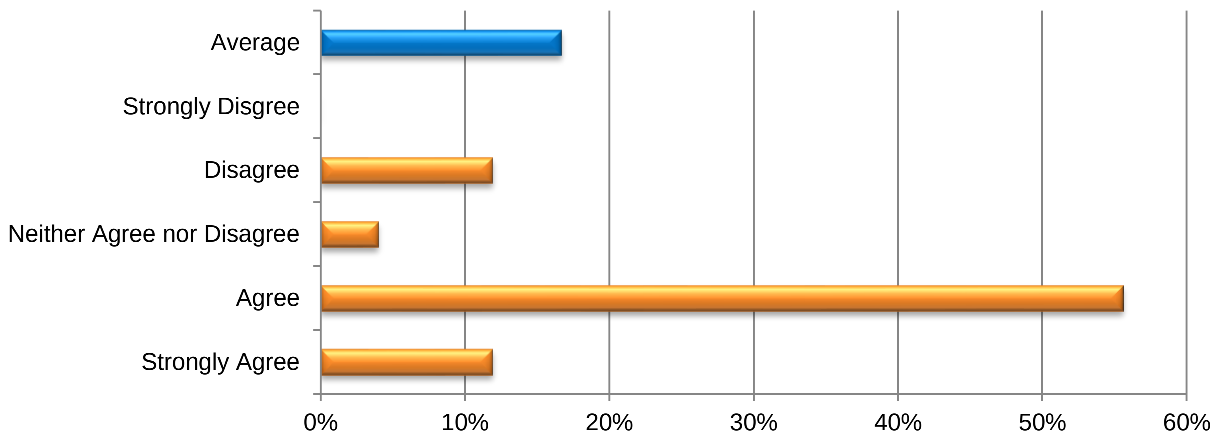
Figure 6.11: Budgets assist our organisation in planning operation activities

It is an undisputed view given by the results dipicted in the above figure. The graph reflect that 40 percent of the respondents agree, with a further 32 percent who strongly agree that budgeting assists in the planning activities of an organisation. This is viewed as a compelling case for doing budgets, it is concluded that organisations in South African do derive value from budgeting. This finding is confirmed in the study of Shastri & Stout (2007:21) where they found a majority of 56 percent.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.16 Budgets encourage and improve communication within the organisation

The budgeting process starts at a point where top management sets long-term objectives for the organisation down to finalising annual budgets. This process inevitably demands that communication be flawless. Right from where top management communicates budget guidelines and economic factors to business unit managers, to business units that are interdependent such as the sales department and the production department. Without improved communication, the sales department can end up committing the organisation to more than what it can possibly produce.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Communication	12%	56%	4%	12%	0%	17%

Figure 6.12: Budgets encourage and improve communication within the organisation

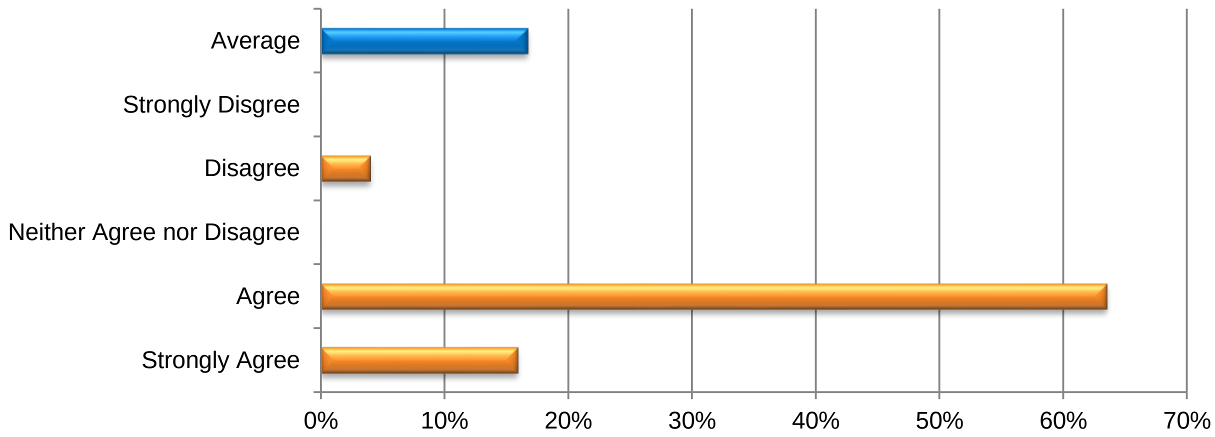
A 56 percent of respondents agree, with a further 12 percent strongly agreeing with the view that budgeting improves communication within the organisation. Without proper communication channels in place, those who prepare budgets would not be clear as to which budget assumptions to apply in preparing budgets. This is followed by the risk of preparing budgets that are out of sync with the thinking of top management . The finding in the study of Shastri & Stout (2007:21) where they found a balance view with 50 percent agreeing, 27 percent neutral and 22 percent not agreeing.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.17 Budgets play a role to ensure coordination of activities in our organisation

The coordination of activities in organisations, especially in large organisations, is critically important. Large organisations are made up of different business units with each have their own targets. Hence, business unit managers are charged with achieving targets for their areas of responsibility. Business unit managers are also expected to be mindful of the workings of other business units within the same organisation. It is therefore important that these individual business units are coordinated to pull in the same direction.

No statistical analysis was performed on this question, as it was not selected in the random sample.



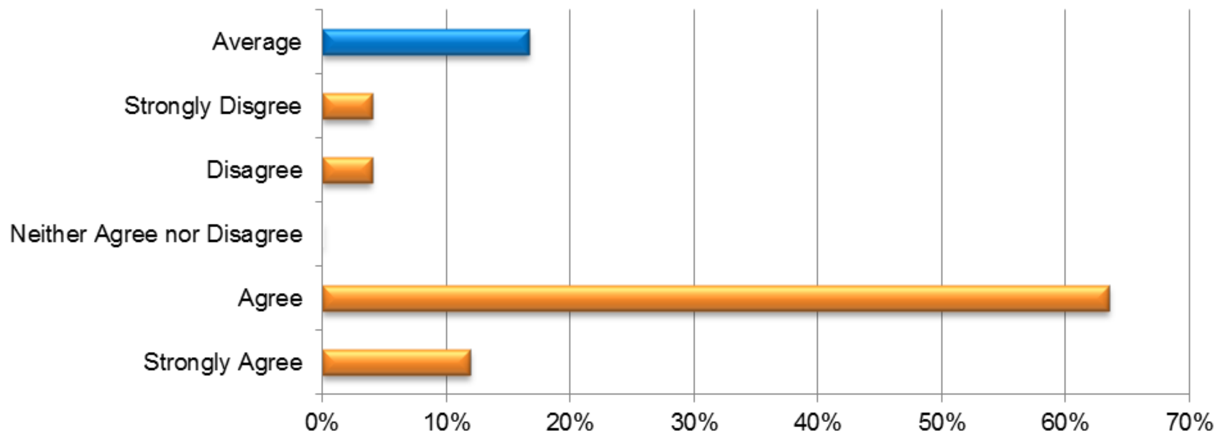
	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Coordination	16%	63%	0%	4%	0%	17%

Figure 6.13: Budgets play a role in ensuring coordination of activities in our organisation

The empirical study reveals that 63 percent of the respondents agree with this view. There is a further 16 percent who strongly agree. These are indications that the South African business community finds budgeting valuable in many areas. Budgets also encourage coordination because the various areas and activities of the organisation must all work together to achieve the stated objectives. The results in the study of Shastri & Stout (2007:21) reflect that 42 percent agree, 32 percent is neutral with 25 not agreeing.

6.4.18Budgets are used as a tool to evaluate activities within the organisation

Organisations can use budget targets as a tool to evaluate and measure performance. Organisation can even develop bonus incentive schemes around budget numbers. In this way, top management can evaluate individual managers, as well as different business units' performance.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Evaluation	12%	63%	0%	4%	4%	17%

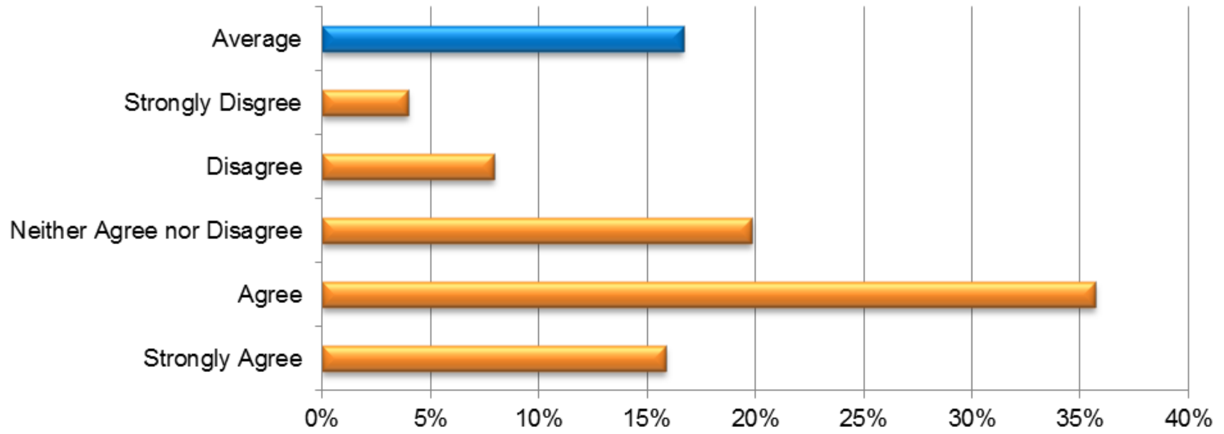
Figure 6.14: Budgets are used as a tool for evaluation of activities within the organisation

The above graphical illustration reflects a 63 percent agreement with this view, with a further 12 percent who strongly agree. An inference can thus be drawn that organisations use budget targets as a means of evaluation and control. The intention behind using budgets as an evaluation tool is to encourage and motivate managers in their performance. This also opens up the opportunity for managers to become creative and innovative in their jobs. In this question Shastri & Stout (2007:21) found that 46 percent of the respondents agree, 26 percent remain neutral and the rest not agreeing.

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.19 Budgets are used as a tool to motivate managers to improve their performance

This question intends to determine whether respondents feel that budgets are used as a tool for motivating managers to improve their performance. When an organisation makes use of budget targets as a performance-evaluating tool, it normally links these targets to incentive schemes. The intention is to motivate managers to improve their performance, while chasing budget targets. In organisations that use a participative budgeting principle, this should be even more encouraging for managers, as they are asked to chase budgets targets they were involved with setting.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Motivation	16%	36%	20%	8%	4%	17%

Figure 6.15: Budgets are used as a tool for motivating managers to improve their performance

Again, the majority of the respondents agree, to an extent of 36%, with a further 16% strongly agreeing. The biggest advantage for managers when they budget is to have a target that they can work towards. Therefore, managers are motivated to become more efficient and diligent in their performance to achieve budget targets. It is concluded that this move by organisations is mutually beneficial, on one hand the organisation benefits from creative managers and on the other hand managers know that meeting those targets is regarded as good performance and is recognised by the organisation. In this question Shastri & Stout (2007:21) found that 43 percent of the respondents agree, 32 percent remain neutral and the rest not agreeing.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

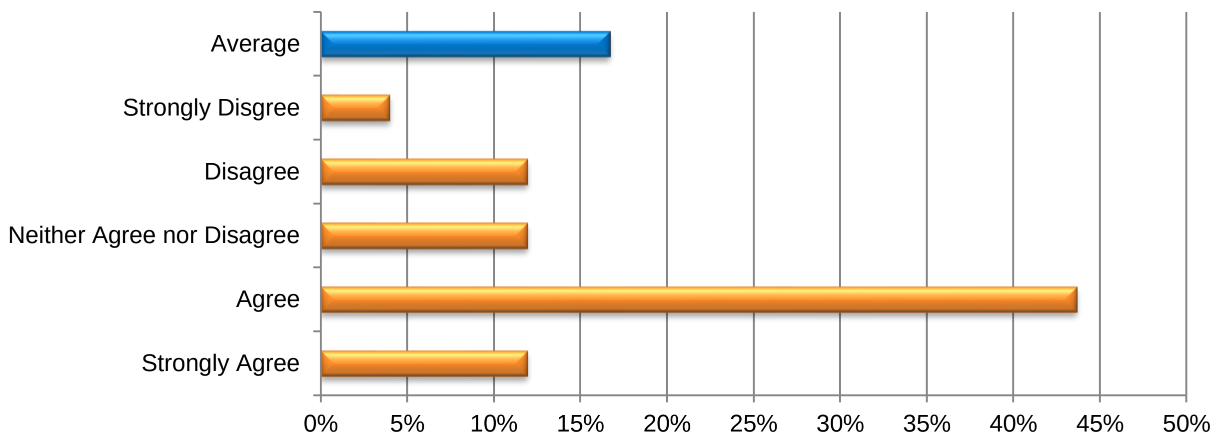
Table 6.6h: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.3151	0.3870	0.1456	0.3458

This is another statement which response pattern was not affected or influenced by any of the independent variables. All p-values are higher than 0.05.

6.4.20Budgets are used as a tool to reward managers

This question is in line with the previous question in that organisations use budgets as a tool to reward good performance. This reward is most often a carefully calculated system, based on company performance. Organisations apply different mechanisms to reward good performance. Others grant share options, promotions, family holidays, a certain percentage of cost to company as a once off lump sum. There are a number of reward schemes an organisation can adopt to recognise good performance.



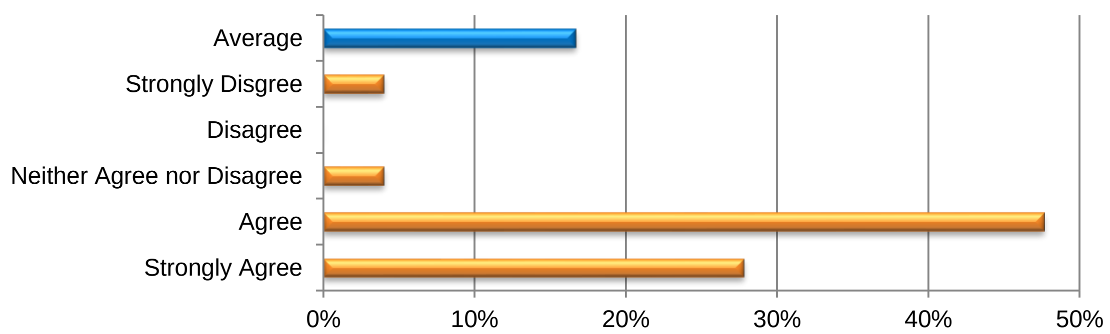
	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Rewards	12%	44%	12%	12%	4%	17%

Figure 6.16:Budgets are used as a tool to reward managers

The graph in Figure 6.16 reflects that 44 percent of the respondents agree with the view that budgets are used as a tool to reward managers. This is supported by another 12 percent strongly agreeing to this view. The numbers against this view cannot be ignored, but can be explained by concluding that they may be emanating from the fact that organisations differ and that they apply different policies. As explained earlier, rewarding good performance may come in ways other than financial.In this question Shastri & Stout (2007:21) found that 46 percent of the respondents agree, 26 percent remain neutral and the rest not agreeing. In the study of De With & Dikjman (2008:31) 25 percent strongly agree, 52 percent agree with the rest not agreeing. The majority of the respondents in this study are aligned with the results of De With & Dikjman (2008:31).No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.21Budgets play a vital role in allocating resources

Irrespective of the size, nature and complexity of an organisation, the amount of money that can be spent will always have a limit. Therefore, organisations need to establish mechanisms that can be used to manage the distribution of constrained resources. This question tested if budgets can play this role.



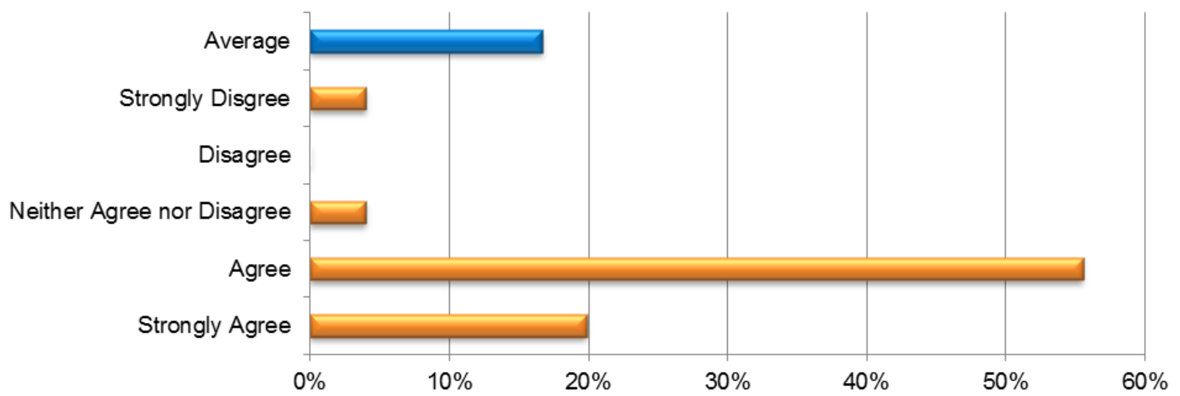
	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Resource Allocation	28%	48%	4%	0%	4%	17%

Figure 6.17:Budgets play a vital role in allocating resources in your organisation

An inference can be drawn that budgets are indeed used as a mechanism to allocate limited resources in an organisation. A total 48 percent of respondents agrees and are supported by a further 28 percent of respondents who strongly agree. The allocation of resources using budgets affords organisations' top management a snapshot of how and where funds will be applied in the organisation. This process also assists organisations to decide when additional funds will be required from shareholders. Budgets do not only assist in financial resource allocation, but also human resource requirements need to be thoroughly assessed during the budget period. In the study of De With & Dikjman (2008:31) 27 percent strongly agree, 50 percent agree with the rest not agreeing. The majority of the respondents in this study are aligned with the results of De With & Dikjman (2008:31).No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.22Budgets are indispensable

This question aimed at testing the level at which South African businesses rely on the budgeting process. Based on the results, it is very clear that the South African business community heavily relies on budgeting.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are indispensable	20%	56%	4%	0%	4%	17%

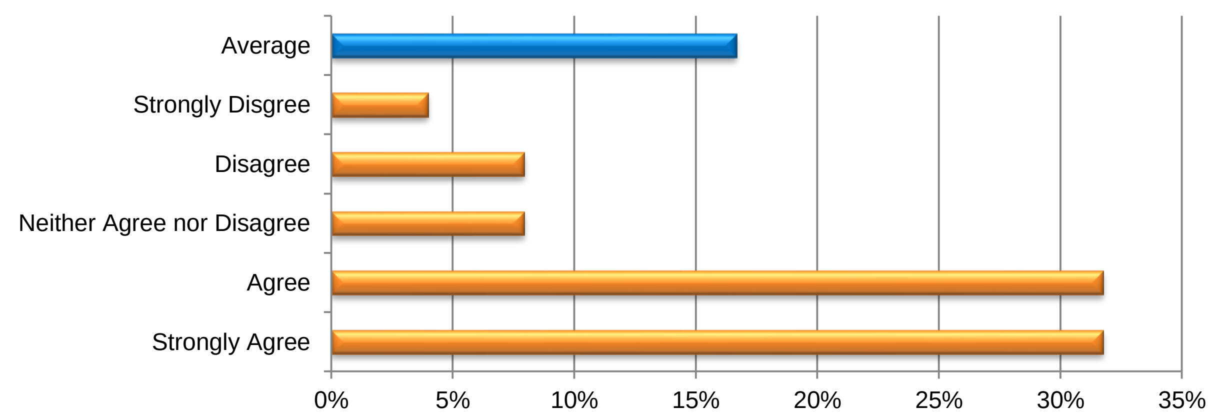
Figure 6.18: Budgets are indispensable; your organisation could not manage without them

According to the survey results, it appears that budgets and budgeting is here to stay. This is supported by a combined 76 percent of respondents admiting that budgets are indespensible in their organisations. The graph in Figure 6.18 reflects that 56 percent of respondents agree and a futher 20 percent of respondents strongly agree that their organisations could not manage without them. This question puts a seal on the perception about whether South African business community see a future in budgeting. In the study of Libby and Lindsay (2007:48) 17 percent strongly agree, 33 percent agree. The majority of the respondents in this study are aligned with the results of Libby and Lindsay (2007:48).

No statistical analysis was performed on this question, as it was not selected in the random sample.

6.4.23Budgets are time consuming

The question intends to test whether the South African business community shares the same sentiment advocated by Hope and Fraser, and Neely *et al.*, in that budgets are time consuming. According to Neely *et al.,*(2001:6), the budgeting process is said to consume between 20 percent and 30 percent of management time in many organisations.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are time consuming	32%	32%	8%	8%	4%	17%

Figure 6.19:Budgets are time consuming

In line with the sentiments of Neely *et al*., (2001:6), the results as per the graph in Figure 6.19 reveals that the majority of respondents agree that budgets are time consuming. This is represented by 32 percent of respondents agreeing, supported by another 32 percent who strongly agree. It is interesting to note that a quite significant 8 percent of the respondents do not agree with this statement. In the study of Libby and Lindsay (2007:49) 28 percent strongly agree, 25 percent agree. The majority of the respondents in this study are aligned with the results of Libby and Lindsay (2007:49).

The statistical analysis reveals that the response pattern in this question was influenced by the size of the organisation by which the respondents are employed. This variable reflects a calculated p-value are lower than 0.05.

Table 6.6i: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
1.0000	1.0000	0.6539	0.0251

The response pattern on the statement that budgets are time consuming is affected by the size of the organisation. The other independent variables reflect p–values higher than 0.05. With regard to the size of the organisation the calculated p–value is 0.0251.

Table 6.7a:Statistical Table

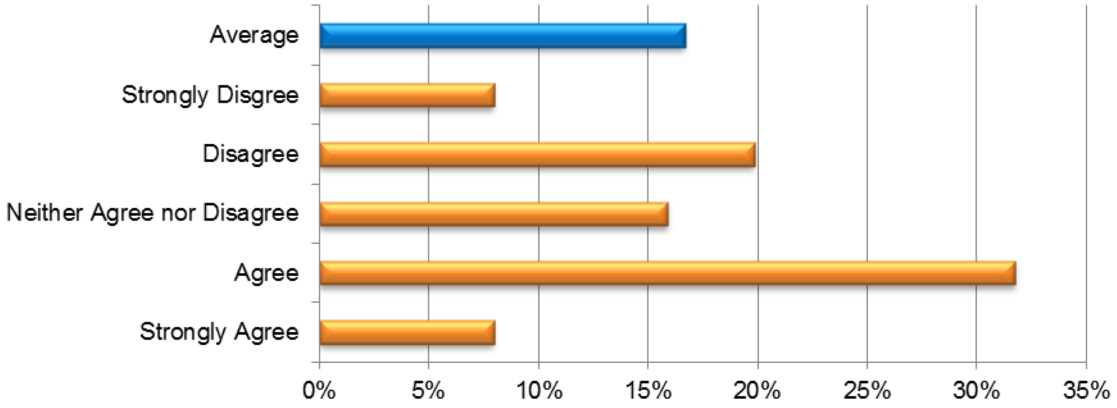
Variable	Values	Strongly Agree/Agree (%)	Undecided/Disagree (%)
Size of Organisation	SME	42.86	57.14
	Large	92.86	7.14
	Total	**76.19**	**23.81**

In Table 6.7b, it is be noted that there is almost an equal split on SME responses, reflecting 42.86 percent vs 57.14 percent. With regard to large organisations, there is an almost unanimous agreement that budgets are time consuming, reflected by a

91.86percent against 7.14 percent. The study infers that budgeting in large organisations is more complex compared to small-medium organisations. Furthermore, large organisation budgets are a cumbersome process as they may involve several business units with quite a large number of cost centres or responsibility centres.

6.4.24Budgets are slow to detect operation problems

Again, Neely *et al.,*(2001:6) suggested that budgets are slow to detect operational problems. Respondents were asked for their view based on their experience.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are slow to detect problems	8%	32%	16%	20%	8%	17%

Figure 6.20:Budgets are slow to detect operational problems

While the majority of respondens agree with this i.e. 32 percent who agree and 8 percent who strongly agree, what is noted is the 16 percent respondents who neither agree nor disagree. Given the magnitude of this number, it can be concluded that this is not a straightforward truth. The monthly variance analysis discussions are meant to be deterrents and hint towards the implementation of corrective actions. In the study of Libby and Lindsay (2007:48) 32 percent strongly agree, 33 percent agree. The majority of the respondents in this study are aligned with the results of Libby and Lindsay (2007:49).

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

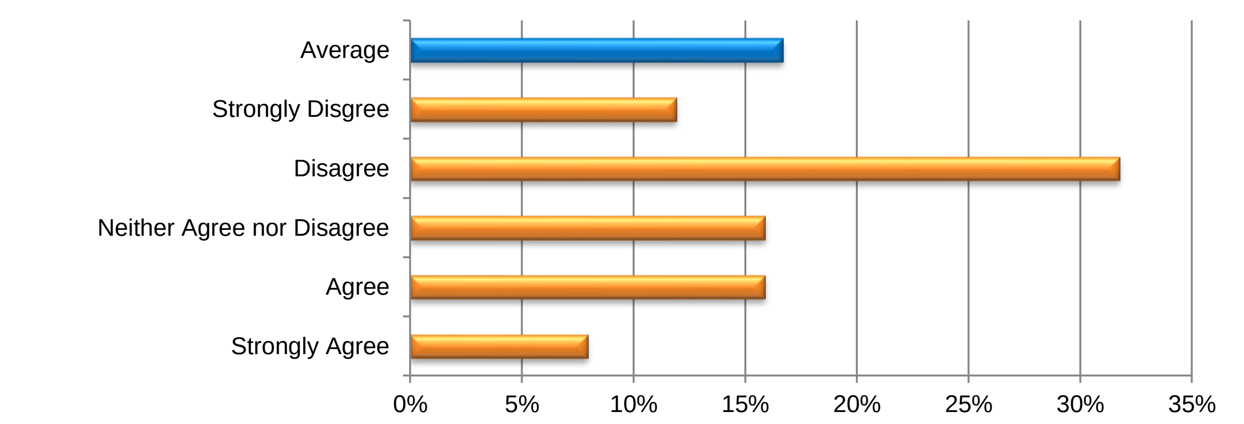
Table 6.7b:P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.7346	0.1984	0.7272	1.000

All of the above p-values are higher than 0.05, this means that no significant relationship could be statistically established between independent variables and the response pattern.

6.4.25Budgets are not reliable for performance measurement

This question tests the reliability of budget figures. In large organisations, the budgeting process may become a lengthy exercise. This is complicated by the complex nature of the organisation and even more so in organisations that have many branches or subsidiaries scattered geographically. If the process is not supported by good technology and quality management, budget numbers might be comprised.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are not a reliable measure	8%	16%	16%	32%	12%	17%

Figure 6.21:Budgets are not reliable for performance measurement

The results reflect a strong disagreement with this view. A combined 42 percent i.e. 32 percent and 12 percent of the respondents are against this view. There is also a noticeable 16 percent of indifferent respondents who can be considered to be from small to medium organisations. In the study of Libby and Lindsay (2007:49) 32 percent strongly agree, 32 percent agree. The majority of the respondents in this study are aligned with the results of Libby and Lindsay (2007:49).

The statistical analysis reveals that the response pattern in this question was influenced by the level of experience. The below calculated p-values are lower than 0.05.

Table 6.7c:P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.5198	1.0000	0.0026	0.6126

Statistically, the level of experience signifies a significant relationship in the response pattern on this statement. This is reflected by a calculated p-value of 0.0026, a value below the 0.05. The other variable reflect p-values higher than 0.05. This indicates that there is a relationship between the qualifications of the respondents and the perception that budgets are not reliable for performance measurement.

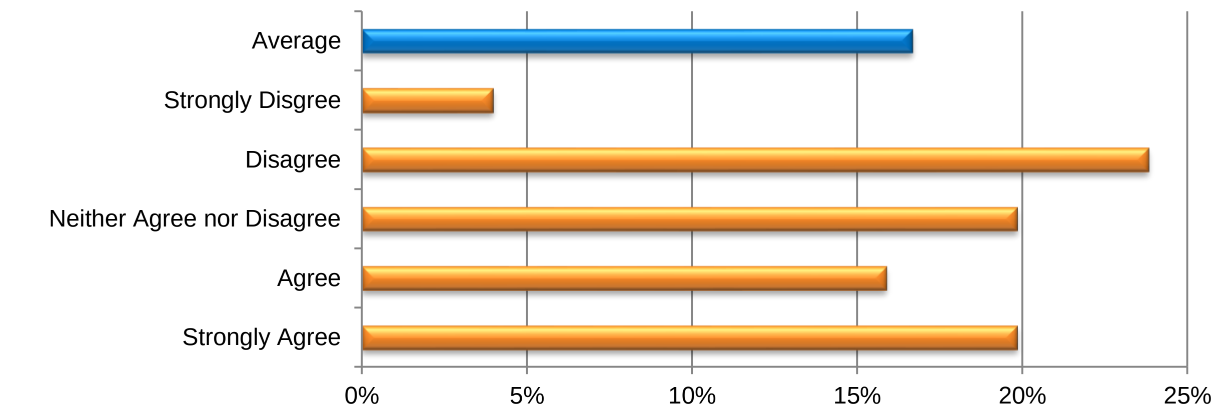
Table 6.7d:Statistical Table

Variable	Values	Strongly Agree/Agree (%)	Undecided/Disagree (%)
Level of experience	≤ Three Years	80.00	20.00
	≤ Five Years	0.00	100.00
	≤ Eight Years	0.00	100.00
	≥ Ten Years	0.00	100.00
	Total	**21.05**	**78.95**

Table 6.7c reflects an interesting statistical finding given the margin of variance on respondents with three years and below to those with more experience. Respondents with a qualification of three years and lower reflect an 80/20 split with the majority agreeing with the statement that budgets are not perceived to be reliable for performance measurement. The rest of the categories reflect exactly the same sentiment on the statement.

6.4.26Budgets are quickly out of date

The critics of budgeting suggest that the budgeting process is out of date and dysfunctional (Hope & Fraser, 2003a; Horváth & Sauter, 2004). This question was aimed at determining the view of respondents around the validity of budgets.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets are quickly out of date	20%	16%	20%	24%	4%	17%

Figure 6.22:Budgets are quickly out of date

Ultimately, the success of the budget process relies heavily on its suitability to the market conditions an organisations operates in. Organisations that have enough resources survive periodic fluctuations in their income do not need to re-forecast as frequently as organisations with limited resources. The above graph reflects that a combined 36 percent are in agreement i.e. 20 percent and 16percent are against and a combined 28 percent are in disagreement.In the study of Libby and Lindsay (2007:49) 22 percent strongly agree, 25 percent agree. The majority of the respondents in this study are aligned with the results of Libby and Lindsay (2007:49).

The statistical analysis reveals that the response pattern to this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05. The study could not obtain information to test this phenomenon with previous studies.

On the other hand, organisations that compete in markets with long lead times and extended time horizons do not need to re-forecast as frequently as those that compete in markets with shorter time horizons.

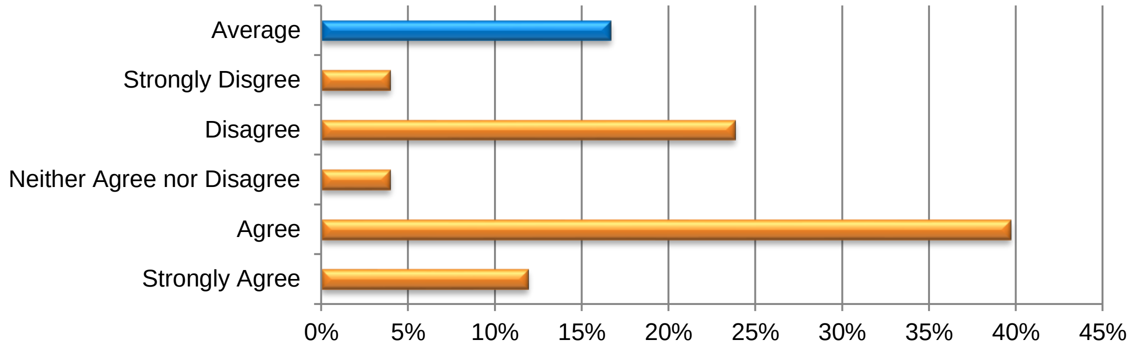
Table 6.7e:P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.4290	1.0000	0.0789	1.0000

All of the above p-values are higher than 0.05, this means that no significant relationship could be statistically established between independent variables and the response pattern.

6.4.27Budgeting process disrupts daily routine work

For the majority of respondents budgeting is a once off process and many feel that it disrupts their daily work routine.



	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disgree	Average
Budgets disrupts daily routine work	12%	40%	4%	24%	4%	17%

Figure 6.23: Budgeting process disrupts daily work routine

The graph in Figure 6.23 reflects that 40 percent of respondents feel that budgeting disrupts their daily work routine. This is supported by a 12 percent of respondents that strongly agree. The very nature of planning suggests that every action in an organisation must be evaluated and planned going forward.

Planning does not happen every day, so when it happens, daily routine is necessarily disrupted. The only problem is that budgeting happens during normal working conditions and is a part of normal work expectations. In this instance, individuals find themselves having to devote more hours to complete their budgets yet still achieve daily tasks. As an exercise that rarely take place, it is difficult for managers to get used to it. In this question Libby and Lindsay (2007:49) found that 48 percent of the respondents disagree with a further 17 percent somewhat disagreeing. This is total contrast of this study where a majority indicated that budgets disrupts daily routine work.

The statistical analysis reveals that the response pattern in this question was not influenced by any of the independent variables. The below calculated p-values are higher than 0.05.

Table 6.7f: P-Valuesof Independent Variables

Current Job (p-value)	Qualifications (p-value)	Experience (p-value)	Size of Organisation (p-value)
0.9602	0.6594	0.3054	1.0000

All of the above p-values are higher than 0.05, this means that no significant relationship could be statistically established between independent variables and the response pattern.

6.5CONCLUSION

The respondents who participated in this study are considered to be of good quality for the purposes of this study. The respondents are well represented in their level of education, level of experience, job profile and the size of the organisation. This study managed to obtain evidence on the prevailing budgeting practice in the South African business community. The South African business community has adopted Better Budgeting practices. These practices include Activity Based Budgeting, Zero Based Budgeting, with the majority using Rolling budget and forecasting. This addresses the first part of this study's problem statement, which sought to establish the prevailing budgeting practice in South Africa.

Statistical analysis was conducted with the assistance of an expert from the Department of Statistics in the University of Pretoria. The intention of the statistical analysis was to test if the independent variables had an influence in the manner in which questions were answered. It was evident that there were only three questions shaded in green where the response pattern was influenced by the independent variables. The level of education of the respondents affected the manner in which Question 17 was answered. This is illustrated by a p-value of 0.0237. Question 28 was influenced by the size of the organisation reflecting a p-value of 0.0251. The level of experience had an influence on Question 30 reflecting a p-value of 0.0026.

In questions where respondents of this study responded differently from other studies, this study is of the view that it may be because of different levels of maturity and the complex nature of different organisations. In chapter 5 the study referred to the diffusion mechanism which also suggested that the manner in which an innovation is implemented in an organisation may have implications in which the managers are employees perceive that innovation.

Given the research results as discussed above, this study draws the conclusion that the South African business community believes that budgets have a future.The next chapter is about the conclusion of this study; the chapter provides an analysis of the research objectives to test if they were all met satisfactory.

CHAPTER 7

CONCLUSION

7.1INTRODUCTION

Based on the survey results, there is consensus that budgeting remains a valuable management tool and a cornerstone in a number of organisations. There is also a conclusive indication that Better Budgeting is the prevailing budgeting practice in the South African business community. The ubiquitous use of budgeting is largely due to its ability to weave together all the disparate threads of an organisation into a comprehensive plan.

This chapter draws a conclusion to this study, briefly highlighting some of the salient features in different chapters in relation to the research findings.

7.2DATA COLLECTION

The empirical data was collected through a survey questionnaire, electronically administered. Respondents were sent an email with a hyperlink directing them to the survey questionnaire. It was indeed the intention of this study to obtain views from as many industries as possible, and this was achieved. The study also intended to reach different levels of seniority and experience. Accordingly, the results reflect a spread of 29 percent cost/management accountants, 19 percent financial managers, 24 percent senior financial managers/financial controllers and 14 percent financial directors. With regard to the level of experience which talks to the number of years in budgeting, a staggering 43 percent of respondents have been involved with budgeting for at least eight years with a further 24 percent for at least five years. Another 24 percent of the respondents have been doing budgeting for three years or less. There are also 10 percent of the respondents with fifteen and above years of experience in budgeting.

The views revealed by this study are considered comprehensive as they range from the lowest level right to the top.

Another highlight achieved was on the educational qualification of the respondents. This also reflects a complete mix ranging from bachelor's degrees right up to a doctoral degree. The study also incorporated the dimension of organisational size based on annual turnover and the number of employees. The questionnaire categorised the size into small, medium and large. It is positive that 67 percent of the respondents were from large organisations with only 10 percent from small. The dimension of size was included deliberately for purposes of a balanced perspective.

7.3EMPIRICAL RESULTS ANALYSIS

The statistical analysis reveals that for most of the questions the response pattern of the respondents was not influenced by the research variables. This therefore drives this study to the statistical inference that respondent's opinions about budgeting are generally similar irrespective of the size of the organisation, level of education, number of years in budget preparation and the level of seniority within an organisation.

This study successfully evaluated the prevailing budgeting practice in the South African business community. It identified a two-pronged problem statement: whether organisations still do budgets and what is the future of budgeting. The research findings addressed both dimensions of the problem statement. The South African business community still do budgets and the results reflect an overwhelming consensus that budgets are indispensable. The research objectives of this study, as contained in the first chapter, are listed below:

- To determine how many times per year budgets are prepared and how those budgets are subdivided.
- To determine whether operational budgets support the organisation's overall business strategy.
- To determine the approach adopted by organisations in setting budget targets.
- To investigate budgeting practices of the South African business community according to size and sector of business.

- To evaluate the value of budgeting in relation to productivity, innovation and performance management.
- To identify the budget value-add in an organisation with regards to planning, coordination, communication, motivation and evaluation of operational activities.
- To evaluate the future of budgeting.
- To evaluate how budgets influence organisational behaviour and business ethics.
- To evaluate the shortcomings presented by budgeting.

The findings of the empirical data successfully addressed all that was desired and intended in the study.

7.4ANALYSIS OF THE RESEARCH OBJECTIVES

The first research objective intended to determine how many times budgets are prepared in a year and how those budgets are subdivided. The results reflect that 90 percent indicated that budgets are prepared once a year and 90 percent indicated that these budgets are divided into months. This reflection is considered in line with the global practice within organisations that still rely on budgeting as a management tool.

The second research objective was driven by the goal to test a finding made in the study of Neely *et al.,*(2001:6) where it is suggested that operational budgets are rarely strategically focused and are often contradictory. This study found a total opposition to this attestation; it reflects that 62 percent of the respondents perceive operational budgets to be supporting the organisation's overall business strategy. A further 33 percent of the respondents strongly agree with this perception. It was therefore concluded that the South African business community consider the budgeting strategically aligned and as a cornerstone of their corporate planning.

The third objective of the study aimed at determining the approach adopted by organisations in setting budget targets. Again, in Neely *et al.,*(2001:6), it is suggested that budgets strengthen vertical command and control. The principles of Traditional Budgeting are referred to in this case. A system that advocates the imposition of budget targets from top management down to business units. This system tends to exclude lower levels in budget target setting. Managers find themselves having to work towards achieving targets that they were never involved in setting up.

On the contrary, the survey results reflect that 67 percent of the respondents suggest that their budget targets are developed at lower levels, presented at Head Office (maybe revised) and are set by Head Office. This view is completely in opposition with the author's view. The majority of South African organisations do not encourage vertical command and control but that the budgeting process is rather driven from the bottom with the Head Office signing off. This is in line with the principles of better budgeting.

The fourth research objective intended to get views from different organisational sizes. As indicated earlier in this chapter, 67 percent of the respondents were from large organisations. This objective intended to obtain views from all sizes i.e. small, medium and large organisations. The significance of the size of an organisation is to be an indicator of the financial capability, number of business units to be consolidated, bureaucracy levels and the general complexity. All these become relevant points to consider in making a decision about the management tool. Therefore, the size of an organisation will weigh considerably when making a choice of a budgeting practice.

The fifth research objective deals with the value of budgeting in relation to productivity, innovation and performance management. An overwhelming 67 percent of the respondents agree with this view, this is followed by 10 percent of the respondents strongly agreeing. An inference is therefore drawn that the South African business community sees value in budgeting in relation to productivity, innovation and performance management. Neely *et al.,*(2001:7) suggest that budgets tend to be bureaucratic and often focus of form filling, rather than creative thinking about how the organisation is going to generate value. This view is partially shared by the respondents in the sense that there is a general agreement that budgets do present administrative and bureaucratic burdens. However, the overwhelming majority, as indicated above, concede that value generation in budgeting outweighs the administrative burden attached to it.

The sixth research objective was to identify the budget value-add in an organisation with regard to planning, coordination, communication, motivation and evaluation of operational activities. The question on the survey was designed for respondents to provide separate answers for planning, coordination, communication, motivation and evaluation. The detail of the analysis is contained in Chapter five; suffice to say that an overwhelming majority of the respondents actually view budgets as a management tool that plays a pivotal role in the operation in relation to the above organisational aspects.

The seventh research objective was also met, in line with other objectives. The study aimed at determining the extent, if any, at which the budgets play a role in influencing organisational behaviour and business ethics. It was important to test this perspective as literature indicates that budgets are likely to lead to unethical behaviour. This is when managers engage in undesirable behaviour for their personal benefit at the expense of the organisation. Neely *et al., (*2001:7) actually indicate that the majority of managers seek to minimise the level of commitment they have to make and maximise their personal gain during the process of setting budgets. This is especially the case when meeting budget results in incentive payments to individuals and/or teams. When this mentality and culture is pervasive throughout the organisation, the drive to improve and develop is lost.

Five questions in the questionnaire were designed to obtain evidence on the business ethical aspects. These questions are numbers 12,17,18,19 and 20. In all these questions, the majority of the respondents disagree with the notion that budgets may lead to unethical behaviour. This is however taken with an understanding that there might be a fraction of managers who may be involved in unethical behaviour. The detail of this analysis is in Chapter five.

The last research objective was to evaluate the shortcomings presented by budgeting. In relation to the notion that budgeting is time consuming, the respondents agreeing were 38 percent with a further 38 percent strongly agreeing. Neely *et al.,*(2001:6) state thatin many organisations the budgeting process is said to consume between 20 percent and 30 percent of management time. The survey results support the notion that budgets are time consuming.

A question that actually seals the conclusion to this study was directed at determining if budgets were indispensable. This is in line with this study's problem statement, which was to determine the future of budgets. According to the results, budgeting has a future in the South African business community. This is supported by 67 percent agreeing and a futher 24 percent strongly agreeing that their organisations could not manage without budgets.

In conclusion, the most prevailing budgeting practice in the South African business community is better budgeting. This consists of budgeting practices such as Activity Based Budgeting, Zero Based Budgeting and Rolling Budget and forecasting. These contemporary budgeting practices are perceived to be the prefered tools in extracting value in the budgeting process and withstanding the demands of competitive markets as well as voliltile economies.

7.5TOPICS FOR FUTURE RESEARCH

Possible topics for future research are as follows:

- The Beyond Budgeting practice scored 0 percent; it would be of interest to academics and practitioners if one can go deeper to establish why South African organisations do not believe or perceive this as an option.
- Also to investigate as to how organisations can completely rule out unethical behaviour during the budgeting process. Could it be possible to delink incentive schemes from budget targets?

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Appendix 1 :Informed consent form and ethical clearance

Department of Financial Management

Faculty of Economic and Management Sciences
UNIVERSITY OF PRETORIA
21 AUGUST 2012

Dear Sir/Madam,

EVALUATION OF THE MOST PREVALENT PRACTICE IN THE SOUTH AFRICAN BUSINESS COMMUNITY

I am the supervisor of Sibusiso Sabela, a student in the Department of Financial Management at the University of Pretoria, who is currently conducting research for his Master's degree in Financial Management Sciences.

The evolution of budgeting practices has been driven by the relevance of conventional budgeting in today's tumultuous economic environment.Organisations have the burning desire to keep abreast with best practice business principles and to remain competitive.At the heart of the development of budgets are the shortcomings presented by budgeting. To some extent, these have led to the establishment of a radical perspective that seeks to dispense budgeting as a concept. Alternatively, other organisations have opted for an overhaul of Traditional Budgetingby adopting more dynamic budgeting practices.

The attached questionnaire was developed to determine the most prevalent budgeting practices in the South African business community. Your completion of the enclosed questionnaire will be highly valued as your personal input is invaluable.

The responses in the individual questionnaires will be analysed and statistically processed into the final results. The information will at all times be treated as confidential and not be made available to any entity.

Should you require any further information, please contact Sibusiso Sabela at:
Cell Phone: (082) 826 4873
Landline: (011) 024 7588
Fax: (086) 540 8452 (Please mark for my attention)
E-mail: sbu@stsconsulting.co.za
Postal address: Postnet Suite 990
Private Bag X 153
Bryanston
Johannesburg, 2021

Thanking you in anticipation for your kind cooperation and assistance with this research project.

Yours sincerely,
Dr Elda du Toit
Lecturer: Department of Financial Management
012 420 3818

ETHICAL CLEARANCE

Application was made for Ethical Clearance at the Faculty of Economic and Management Sciences Ethical Committee at the University of Pretoria. The application was approved before the questionnaire was distributed to respondents.

Dr Elda du Toit
Lecturer: Department of Financial Management
012 420 3818

Appendix 2:Data Collection Instrument

	For Office Use Only

1. Indicate which of the following describes your current job the best

Cost/Management Accountant	1
Financial/Administration Manager	2
Senior Financial Manager/Controller	3
Chief Financial Officer/Financial Director	4
Other(specify):	5

V1

2. What is your highest educational qualification?

Grade 8 - 12	1
Diploma	2
B-degree	3
Honours degree	4
Master's degree	5
Doctorate	6

V2

3. How many years have you been involved in budget preparation?

….years

V3

4. Please indicate the most appropriate size of your organisation based on the number of employees and annual turnover in the period 30 June 2011 and 30 June 2012.

Small (<100 employees and <R20 million turnover)	1
Medium (<200 employees and <R50 million turnover)	2
Large (>200 employees and >R50 million turnover)	3

V4

5. Please indicate which one of the following describes the industry your company operates in the best.

Aerospace and Defence	1	Forestry and Paper	17
Agriculture and Agri-processing	2	Healthcare and Pharmaceuticals	18
Aquaculture and Mariculture	3	ICT – Information and Communication Technology	19
Automobiles	4	Insurance	20
Banking	5	Manufacturing	21
Boat Building	6	Media	22
Clothing and Textiles	7	Mining and Metals	23
Construction and Materials	8	Oil and Gas	24
Containers and Packaging	9	Personal and Household Goods	25
Delivery Services/Logistics	10	Public Sector Entity	26
Development Finance	11	Retail	27
Education	12	Telecommunications	28
Electronics	13	Tourism and Leisure	29
Energy	14	Transportation	30
Engineering	15	Utilities	31
Environment and Waste	16	Water	32
	17	Other(please specify)	33

V5

6. Please indicate how often budgets are prepared in your organisation per yeare.

Once	1
Two times	2
Three times	3
Four times	4
We don't do budgeting	5

V6

7. Please indicate how budgets are subdivided in your organisation.

Our budgets are subdivided into months	1
Our budgets are subdivided into quarters	2
Other: (describe):	3

V7

8. Please indicate which of the following is applicable to your company.

Head Office develops the budget targets, presents them for noncommittal comments to lower levels, and then sets them.	1
Budget targets are developed at lower levels, presented at Head Office (maybe revised) and then are set by Head Office.	2

V8

9. Which one of the following describes your budgeting practice the best.

Our budgeting process is based on Activity-Based Budgeting principles.	1
Our budgeting process is based on Zero-Based Budgeting principles.	2
Our budgeting process is based on Rolling-Budgets and Forecasting principles.	3
Our budgeting process is based on Traditional Budgetingprinciples.	4
We have adopted Beyond Budgetingpractices where the budgeting process does not play a role anymore.	5

V9

Please indicate to what extent you agree or disagree with the following statements.

		Strongly agree	Agree	Un-decided	Disagree	Strongly disagree	
10.	The operational budgets of the organisation are in line with the organisation's overall strategy.						V10
11.	The Business Unit managers succeed in submitting budgets that are easily attainable.						V11
12.	The budget targets increase productivity and stimulate innovation in the business units.						V12
13.	Head Office constantly reminds business unit managers of the need to meet budget targets.						V13
14.	Head Office controls the Business Units by monitoring how well performance meets budget targets.						V14
15.	Promotion prospects of the business unit managers depend heavily on their ability to meet budget targets.						V15
16.	The budget targets are relaxed in order to absorb business uncertainties.						V16

17.	Business unit managers spend all excess money at year-end to avoid losing it in the next budget period.						V17
18.	Business unit managers defer certain necessary expenditures (e.g. safety compliance) to reach budget targets.						V18
19.	Business unit managers accelerate sales near year-end to make the budget targets.						V19
20.	Budgets assist our organisation in planning operational activities.						V20
21.	Budgets encourage and improve communication within the organisation.						V21
22.	Budgets play a role in ensuring coordination of activities in our organisation.						V22
23.	Budgets are used as a tool for evaluation of activities within the organisation.						V23
24.	Budgets are used as a tool for motivating managers to improve their performance.						V24
25.	Budgets are used as a tool to rewarding managers.						V25
26.	Budgets play a vital role in allocating resources in your organisation.						V26
27.	Budgets are indispensable; your organisation could not manage without them.						V27
28.	Budgets are time consuming.						V28
29.	Budgets are slow to detect operational problems.						V29
30.	Budgets are not reliable for performance measurement.						V30
31.	Budgets are quickly out of date.						V31
32.	Budgeting process disrupts daily routine work.						V32