



# **Reasons why managers play budget games and their perception of budgets at a local bank in South Africa**

**Vincent Masilo**  
10679023

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

7 November 2012

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

### **Abstract**

Recent surveys done in the field of budgeting indicate that budgeting is alive and well in many organisations; however there continues to be academic research and writing on the problems experienced in budgeting. This research report investigated the views of finance and non-finance managers on reasons why managers play budget games such as low balling and sand bagging and their perceptions of budgeting.

Previous research has on focused on international companies thus leading to a literature gap within the South African context. This provides opportunity to deeply understand the budget problems within the local context, South Africa. This study investigated the experiences and views of both financial and non-financial managers at a local bank as banks are notorious for huge management incentives. In order to understand the views of both types of managers and unpack this topic, Qualitative research, in the form of semi-structured expert interviews was undertaken.

The findings reflect that managers believe in budgets and the budgeting processes. Budgets are viewed as an indispensable management tool. The budgeting games are largely as a result of leadership issues within organisations as opposed to process issues.

An additional dimension to the topic was uncovered; budget games are not only linked to incentives, managers' egos and their need to protect their bonuses. A large part of this process is dependent on the manager sub-ordinate relationship: Where there are reasonable trust levels, managers do not play games such as low balling and sand bagging. However in cases where the relationship is mainly mechanical and there are low levels of trust, budget games are more apparent.

*“Management enables a robust budgeting process; however leadership creates the space and environment to have robust strategic discussions”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

---

**Keywords**

Budgets, Budget Games, Budget Perceptions, Finance

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

**Declaration**

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

Signed: \_\_\_\_\_

At: \_\_\_\_\_

On: \_\_\_\_\_

By: Mr Vincent Masilo, 10679023

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

### **Acknowledgements**

I would like to acknowledge the following people for their immense contribution.

- My supervisor, for his unwavering commitment to seeing the success of this document, your wisdom, knowledge and support is greatly appreciated.
- My wife for her unconditional support and love; without you I would have not made it through; when my energy levels were at their lowest, you gave me motivation to continue.
- My two beautiful children; for being the inspiration in life and for understanding when I was could not be with you whilst on lectures.
- My mother, for instilling the belief in me that I can achieve whatever I put my mind to.
- My sister and brother for your support.
- My managers; for providing this unique opportunity and believing in my abilities.
- My friends and colleagues, especially the “*English teacher*” for editing this document.
- And lastly, the managers who availed their time to go through the interviews and share their insights and experiences make this document possible.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*



**Table of Contents**

**CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM..... 7**

    1.1 Introduction to Research Problem ..... 7

    1.2 Problem Definition ..... 9

    1.3 Research Aim ..... 13

**CHAPTER 2: THEORY AND LITERATURE REVIEW..... 14**

    2.1 Introduction..... 14

    2.2 Organisational Firm theories ..... 15

        2.2.1 Financial Management ..... 15

        2.2.2 Theory of Constraints ..... 18

    2.3 Budgeting and Budgeting Processes ..... 21

        2.3.1 Budgeting ..... 21

        2.3.2 Budgeting Processes..... 22

        2.3.3 Budgeting Debates ..... 24

    2.4 Chapter Conclusion ..... 29

**CHAPTER 3: RESEARCH QUESTIONS..... 31**

    3.1 Research Question 1 ..... 31

    3.2 Research Question 2 ..... 31

    3.3 Research Question 3 ..... 32

    3.4 Research Question 4 ..... 32

**CHAPTER 4: RESEARCH METHODOLOGY ..... 33**

    4.1 Introduction..... 33

    4.2. Research Design ..... 33

        4.2.1 Scope ..... 35

        4.2.2 Population..... 36

        4.2.3 The unit of analysis ..... 36

        4.2.4 Sample and Sampling..... 37

        4.2.5 Sample Frame ..... 37

    4.3 Data Collection ..... 38

        4.3.1 Research Instrument..... 38

        4.3.2 Process of data collection ..... 38

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

4.3.3 Anticipated Response rate .....	39
4.4 Data Analysis.....	39
4.5 Limitation of the Research .....	39
<b>CHAPTER 5: RESULTS.....</b>	<b>40</b>
5.1 Introduction .....	40
5.2 Biographical data.....	41
5.3 Interviews summary.....	68
5.2 Research Question 1 .....	70
5.3 Research Question 2.....	71
5.4 Research Question 3.....	71
5.4 Research Question 4.....	72
<b>CHAPTER 6: DISCUSSION OF RESULTS.....</b>	<b>74</b>
6.1 Introduction .....	74
6.2 Research Question 1 .....	79
6.3 Research Question 2.....	82
6.4 Research Question 3.....	84
6.5 Research Question 4.....	84
<b>CHAPTER 7: SUMMARY, CONCLUSION AND RECOMMENDATION .....</b>	<b>86</b>
7.1 Introduction .....	86
7.2 Summary.....	87
7.3 Future Research.....	88
<b>REFERENCES.....</b>	<b>90</b>
<b>APPENDICES.....</b>	<b>91</b>

## **CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM**

### **1.1 INTRODUCTION TO THE RESEARCH PROBLEM**

We live in a dynamic world. Today's firms face rapid changes fuelled by increased competition and increased legislation. Globalisation as seen with deals concluded between American wholesaler Wal-Mart and local wholesaler Massmart continue to impact the competitive arena both locally and internationally and legislation such as Consumer Protection Act, National Credit Act and Financial Advisory Intermediary Services Act increase the rate of change and complexity. (Biles, Brehm, Enrico, Kiendl, Morgan, Teachout & Vasquez, 2007; Matsa, 2011, Hausman & Leitab, 2010)

While these changes are rapid, many companies continue to measure their executives on budgets that have reached their sell by date. For instance, budget processes are normally completed before the following financial year and performance targets are usually agreed upon in the beginning of the financial year.

Budgets for both cost and revenue are negotiated at those stages which do not take into account the dynamism of the competitive markets. (Quiding, 2006, National Treasury, 2011, Steele & Albright, 2004; Andersen, Lassen, Holboll & Nielsen, 2010).

Steele and Albright (2004) have articulated how executives play games around the budget period and processes with some executives neglecting the external environment while they are consumed about the "target" which in this instance is referred to as budget (revenue). Kober (2007) supports this idea by show casing the fixed budget scenario at a hospital that misses the opportunity to serve patients well by adhering to a fixed budget allocated a year earlier. In this example, the hospital realised cost savings in line with the stringent budget,

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

however the mortality rates rose. Budgets as discussed in literature review section have great benefits when correctly executed, yet if not correctly managed, alarming cases such as described above are common including cases where managers are managing earnings to meet earnings budgets (target). Managers often operate in silos and focus on their departmental (own balance scorecard) success as opposed to the greater firm objectives. This leads to unintended lower global system performance. (Giacomino, Bellovary & Akers, 2006).

This discussion requires a look into the past to understand the origins of budgets. In most organisations, a significant amount of time and effort is spent in preparing and updating budgets (Hope and Fraser, 2003). Traditionally these formed part of the tracking and control mechanism for the business. Budget processes and new ways to budget are popular themes in the business and academic press, with the Beyond Budgeting Round Table advocating the move beyond budgets (Dugdale & Lane, 2006). Articles regularly appear on the subject of problems with budgets and budgeting, highlighting that organisations continue to experience the negative outcomes of budgeting. The types of problems include frequent and enormous amounts of time spent on budgets, forecasting and re-forecasting, a lack of alignment to strategy, rigid target setting that fails to adjust for environmental change and the practise of linking budgets to financial rewards have been implicated in driving dysfunctional behaviour in managers. The Beyond Budgeting Round Table, formed in 1998, questions the need for budgeting at all. (Barrett and Jelly, 2007; Beyond Budgeting Round Table, 1998; Cokins, 2008; Hansen et al, 2003; Keogh, 2008; Thomson, 2007; Williams, 2008).

There are currently various descriptions of the term budgeting, however for the purposes of this document: a standard definition will be used. The Chartered Institute of Management

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Accountants (CIMA) define budgeting as 'A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses, assets, liabilities and cash flows.' in their Topic Gateway on Budgeting. (CIMA and Ross, 2008 p 3). This definition is expanded to include the following: "Rolling or continuous budgets, budget flexing, activity-based budgeting, zero-based budgeting and demand pull budgets." Budgeting in this research report will refer to the expanded definition.

### **1.2 PROBLEM DEFINITION**

Managers are required to monitor performance against the set objectives. The most common mechanism is budgets. Historically budgets have been seen as an indispensable control mechanism for businesses and have become common management practice. The desire to adhere to budgets has created behaviours and actions which are counter intuitive to the company objectives at a global system level. Managers are too concerned with the local system, their own departmental variance analysis against budget. Variance analysis has an unintended consequence for the firm such as not fully supporting the global firm objectives. Local optimisation becomes a priority whereby managers are highly concerned with their department's performance against budget and fail to take a system wide approach to maximising shareholder wealth. Internal focus may take priority over market opportunities due to the need to comply with the set budgets to protect their divisional scorecards which give rise to agency issues. This paper will not delve into discussing the agency problems experienced in companies.

This research report will investigate the reasons why managers (within the South African context in banking) engage in budget gaming behaviours and further get to understand if this is all intentional or not: whether or not local managers and finance practitioners are aware of

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

their actions around budgeting times, and what they perceive to be reasons for such behaviours at a local bank. This report will assess:

- Current budget processes and practices,
- Problems experienced in the budgeting process,
- Reasons for budgeting, and
- Managers perception of whether they think their colleagues are involved in budget gaming
- Managements' perceptions of their leadership and their relationships with their line-managers.

Several academic databases such as Science Direct and Ebscohost database searches were undertaken and the author was not able to find research into budgeting in South African companies. It is not known if South African companies suffer from the same problems as their international counterparts. Hansen, Otley and Van der Stede (2003) concluded in their study, that academic research focussed on more traditional issues and neglected problems in budgetary practice. In light of the problems discussed above, the lack of research on South African practises, it is worth investigating whether the problems faced by international companies are faced by a South African company and what they perceive to be the ultimate reasons why managers would engage in budget games.

Budget problems or lack thereof are linked to the perception of value that budgeting provides to an organisation and these perceptions can be broadly grouped into four categories; time invested and budget inflexibility, budget gaming, a lack of strategic alignment and a lack of operational alignment. Budgets are predominantly set using manual processes and completed on Excel spread sheets. Many people are involved in the process which makes the consolidations process difficult. Methods used are time-consuming and prone to error. Budgets are set on estimates and unsupported assumptions which lead to erroneous

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

information being presented. Budgets are often not updated for changes in market conditions which make them irrelevant as a measure of business performance (Better Budgeting Forum, 2004; Bourne, 2004; Hansen et al, 2003; Libby and Lindsay, 2007).

In addressing the problem of budgets becoming irrelevant, employees spend increasing amounts of time preparing and updating forecasts, leading to inefficiency (Barrett and Jelly, 2007; Centage/IOMA, 2007; Keogh, 2008; Thomson, 2007).

Budgetary gaming is most prevalent when incentives or rewards are linked to meeting or exceeding budget targets. Managers are tempted to “take a bath” or incur major expenses in years where they are certain they will not achieve the targets. “Sandbagging” is a common term to describe the process followed by managers who try to get easily achievable budget targets for the following year. (King, 2009) “Pipeline filling” is when customers are persuaded to buy excess quantities in order for sales teams to meet their targets. This is often linked with agreements to allow customers to return excess inventories in the next financial period. Where cost budgets are set based on prior year actual, managers will spend money at year end with a “use it or lose it” mentality. Finally, managers who are close to limits on expenditure may defer critical or necessary expenses to the following year. In cases where budgets are unilaterally imposed from the top down can lead to deterioration in employee performance and motivation. (Better Budgeting Forum, 2004; Fisher et al, 2000; Hansel et al, 2003; Libby and Lindsay, 2007)

Budgets conflict with strategy through traditional top-down budgeting strengthening vertical command and control which is not aligned with more decentralised, empowered organisational structures being implemented today (Bourne, 2004). Organisational

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

structure is one of the most tangible ways of implementing strategy and if the budgeting process cannot support the structure, it cannot support the strategy (Andrews, 1987).

Budget targets focus on financial objectives and overlook key lead indicators of performance (Kaplan and Norton, 2007). Financial managers find it hard to trust non-financial data as linkages to financial performance are difficult to prove (Better Budgeting Forum, 2004).

Budgets focus on financial targets as opposed to strategy and the inflexibility of budget data drives a lack of alignment between finance and operations in budgeting (Cokins, 2008). Traditional budgets are prepared on a functional/departmental basis whereas operational focus would be process driven. Targets and costs are not built up from the individual product cost components on the basis of activity based costs (Neumann, 2001).

In an effort to overcome the problems listed above, organisations have implemented changes to budget processes. Rolling forecasts, where expected performance is re-forecasted based on developing market trends, are intended to address the problem of budgets being outdated very quickly.

Budget Flexing is the practice of adjusting targets to align with actual output or sales. Zero-based budgeting focuses on the complete review and re-justification of expenditure with each budget cycle. Activity-based budgeting builds budgets from the “bottom-up” using forecasted activity levels and seeks to bridge the gap between traditional budgeting and operations (Ross, 2008). These techniques have been applied as improvements over existing budget processes increasing the organisational planning workload. Budget problems and budgetary evolution are discussed in greater detail in Chapter two.

## ***MBA Research Paper:***

*Reasons why managers play budget games and their perception of budgets at a local bank*

### **1.3 RESEARCH AIMS**

The research is aimed at understanding the “problem” why South African managers at a local bank engage in budget games around budgeting period. It is meant to understand the reasons why managers engage in budget games such as low balling and sand bagging and understand their perceptions of the budgets. The research will further test if local managers experience the same problems as their international counterparts.

Literature as will be discussed in the following chapter mentions the negative behaviours that were uncovered in various international researches done previously (Hope, Fraser 2003, Dugdale & Lyle, 2006, Libby and Lindsay, 2007) however there is no mention on South African companies and reasons are not provided besides the premise that incentives drives behaviour. This paper will also validate whether finance managers’ perceptions differ from business’ manager’s perceptions.

The research will focus on unpacking the problem to deeply understand why managers act in certain ways that may not lead to achieving greater organisational goals and whether they are aware of their behaviours. It will test the theory as uncovered in the literature review that budgets rolled out incorrectly has an influence in local optimisation, agency issues such as managers missing market opportunities through their obsession with variance against their budgets, mis-allocation of scarce resources such as capital allocation and many other related problems. Theory of constraints will be used in viewing a firm as a global system.

It also worth mentioning that this research paper support budgeting as a management practice however budgeting should be improved upon juxtaposes be done away with.

*“If you fail to plan, you plan to fail”*

## CHAPTER 2: THEORY AND LITERATURE

### **2.1 INTRODUCTION**

Managers are given the responsibility of running organisations on behalf of shareholders.

Budgets are one of the tools available at management's disposal to manage organisations.

(Garnes & Gronhaus, 2011; Ter Bogt, 1999).

The following literature review will first take an organisational firm view as to why organisations exist and lead into the second phase which is aimed at budgeting, budgeting processes and current debates around the budgets

### **2.2 ORGANISATIONAL FIRM THEORIES**

#### **2.2.1 FINANCIAL MANAGEMENT THEORY**

By and large many organisations exist for the purpose of creating value for shareholders (Lumby & Jones, 2003). A labourer is rewarded with wages and the entrepreneur who starts the firm is rewarded with profits. Economists have argued that man is driven by self-interest; that the entrepreneur starts a venture not to benefit the greater society but him through coordinating resources such as labour and capital to make a profit. Before the entrepreneur can start the business venture he needs to select a venture which the market will respond to, by purchasing the products he introduces, so he can reach his goal of making profits (Davison, 2011). In the end, the entrepreneur's residual result is the improvement of society. Industries go through various life cycles, as industries mature, firms consolidate and reduce the number of players and soon the industry has two or three dominant market players, which is the reason we have big organisations (McGahan, 2000). By the nature of their size, these organisations

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

are typically funded by a community of shareholders, who similar to an entrepreneur of a small venture require returns for the capital they invested in the firm. While there is new debates on the multi purposes that big organisation pursue, one can then argue that while many of these big organisations sometimes refer to multiple purposes of existence, creating value for shareholders through sustainable profits is a key purpose of an organisation (Lumby & Jones, 2003). This determines whether the firm will be in existence in the future or not. Shareholders elect a board of directors to run the firm on their behalf, the board elects the executive directors of the firm, i.e. Chief Executive Officer and Chief Financial Officer. In theory, the shareholders' interests are safe guarded by the board, who supervise the firm activities by directors. The main reason the board elected the management teams is to create value for shareholders and other relevant stakeholders. (Ezzamel & Watson, 2005)

### **2.2.2 THEORY OF CONSTRAINTS**

Theory of constraints theory is inter-related with the financial management theory of maximising shareholder wealth. It however focusses more on the “how” to guide in achieving greater shareholder value. It was introduced by Goldratt in the 1970's as a production scheduling aid which he mentions started off by the term “optimised production time table”, which was later developed into a software package known as Optimised production technology. In 1984, Goldratt wrote a business novel, “the Goal”, in which he re-introduced the optimised production technology with further enhancements into what is now known as the Theory of Constraints. Conceptually it is a process of continuous improvement by taking a system wide approach to organisational problems through the use of the five focusing steps. With the general acceptance of the theory, it moved from being applied in a manufacturing setting to being applied as a management practice. (Davis & Mabin, 2009, Goldratt. 1984)

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Goldratt's theory was essentially stating that the sum of the part of the system is not greater than the whole, he took a global system wide approach to a firm and always seeks to answer the question: what is the goal of the firm. Financial Management theory states that the primary goal for a for-profit organisation is to maximise shareholder wealth through continued profit generation while Zhuang, Tsang, 2008, Goldratt 1984 puts it explicitly as to make more money as well as in the future. This supports the view that the company should be seen as global system, all its resources should be aligned to the goal of the firm, departmental variance analysis against budgets should not be the primary focus, but their contribution to the greater global system should be, for instance Steele and Albright states that managers will do anything at target time to play games that favour them instead of the global system, their focus is on their departmental success which in some cases is misaligned with the global system goals of making more now as well as in the future. (Goldratt & Cox, 1984. Zhuang, Tsang, 2008. Goldratt 1984).

Goldratt further introduced the concept of through put accounting that is defined as the rate that the company generates revenue. He argues that measurements drives behaviour. When budget variance analysis is at the heart of the departmental measurements, managers strive to meet their cost budgets which has reached its sell by date by the time they are six months into the financial year. A manager can miss a market opportunity by the strong desire to align to the set budgets.

(Goldratt & Cox, 1984. Goldratt, 1990).

Goldratt makes mention that "the principal tenet of Theory of constraints is that within each system at least one constraint exists that limits the ability of the system to achieve higher levels of performance relative to its goal. Maximum utilization of the constraint therefore should lead to maximum output from the system". Local departmental budgets can act as a constraint in the

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

system if the goal of the organisation is being hampered by the need to adhere to the budgets to ensure their scorecards have favourable variances. The theory looks at finding constraints that hinder the system from achieving its objectives and breaking them by use of the five focusing steps; it focuses on factors that are preventing the system from achieving its goals, thus taking a system wide approach that are fostered on the following four concepts (Goldratt, 2008):

- Improving Flow is a Primary Objective
- This primary objective should be translated into a practical mechanism that guides the operations when not to produce to prevent over production
- Local efficiencies must be abolished
- A focusing process to balance flow must be in place

Arguably variance analysis is counter intuitive of the theory of constraints as it is focused on local efficiencies. Budget and targets are distilled to business units and departments lower down and are measured against those budget and target by use of variance analysis as a management control system. It takes a localised view by breaking the systems into parts which are measured on expense budgets, efficiencies and sales budgets. Typically local efficiencies have to do with balancing of capacity per the departments, and managers are focused on getting every employee, machine and equipment to optimal use. These to a degree hinder the progress of the system to achieve its goals as managers are concerned with their own “balanced scorecards” and would do anything to come in line with the set budgets, irrespective of whether the decision leads to the global system goals. Theory of constraints argues against the philosophy of optimal efficiencies at every resource within the business, but states that the system’s capacity to generate money is limited to the capacity of the constraint, efficiencies at a non-constraint is a mirage. The variance analysis approach as being used by many organisations is focused on departmental efficiencies, every manager wants to meet their

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

budgets, however for one department to be great a savings costs may be to the detriment of the other.

Gary, Kunc, Morecroft and Rockart (2008) support my argument that companies that apply holistic systems thinking are more profitable. They further mention that systems thinking are a major contributor to strategic thinking.

Checkland (1990) System thinking takes seriously the idea of a whole entity which may exhibit properties as a single whole ('emergence properties') properties which have no meaning in terms of the parts of the whole.

### **2.3.1 BUDGETING**

The budget has historically played center stage in most organizations' systems of management control (Otley, 1994). However, recently it has been the subject of considerable criticism (Hansen et al., 2003). Budgeting has been deemed "broken" (Jensen, 2001), "a thing of the past" (Gurton, 1999), or an "unnecessary evil" (Wallander, 1999).

Hornigren et al (2006) defines budget as the quantitative expression of a proposed plan of action by management for a specific period and an aid to co-coordinating what needs to be done to implement that plan. It forms part of management accounting filed. Drury (2009) states that management accounting is critical in supporting management decision making as such the providers of management accounting have to understand the process of decision making. He further states that it serves as a control mechanism in the organisation whether by divisional targets are monitored through various management control systems such as budgets. Anyidoho (2010) clarifies the world of accounting as follows: the accounting system is the major quantitative information system in almost every company and it should provide information for three broad purposes:

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

1. Internal reporting to managers, for use in planning and controlling routine operations;
2. Internal reporting to managers, for use in making non-routine decisions and in formulating major plans and policies;
3. External reporting to stockholders, government, and other outside parties, for use in investor decisions, income tax collections, and a variety of other applications.

Management accounting dwells on the first two legs which are both regarded as internal reporting. These reporting mechanisms are geared to improve the business operations by providing managers with the necessary information, both financial and non-financial, in making daily decision regarding the area under their control. Budgeting process is critical in organisation as it serves to provide forecasts into future revenue and costs as part of number one for the three purposes listed above. It can be used to seek out insights into the shaping forces of the firm and align to strategic intent; however (Jones, 2008) argues that in practise, firms still use the traditional budget processes that in most cases do not deliver value to organisations. Amongst the prominent use of budgets are intentions to maximise profit, provide a means of communication of strategy, performance evaluation, calculating rewards, motivating employees, and acting as a control mechanism (Cruz, 2007; Oak & Schmidgal, 2009).

Before we delve into the budgets, it is best we define the terms in line with the purposes of this report. Firstly, there are various ways to interpret the term budget however for the purposes of this report align with the definition per The Chartered Institute of Management Accountants (CIMA): a budget is 'A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.' in their Topic gateway on Budgeting. (CIMA and Ross, 2008 p 3). The same document expands this definition to include the following: Rolling or continuous

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

budgets, budget flexing, activity-based budgeting, zero-based budgeting and demand pull budgets. Budgeting in this research report will refer to the expanded definition.

The reasons organisations prepare budgets can be used as a proxy for understanding the value of budgeting for business. Hansen and Van der Stede (2004) highlight that prior research into the reasons for budgeting was mainly focused on performance evaluation. Their 2004 study investigates four possible reasons for organisations preparing budgets; namely, operational planning, performance evaluation, communication of goals and strategy formulation. They found that reasons to budget overlap in spite of having unique uses. They further found that the reasons to budget link to different characteristics of budgeting. Some business focuses on capital allocation, whilst others focus on company objectives.

The research results presented by Dr Bourne (2004) at the Better Budgeting forum to drive value through strategic planning and budgeting, identified the following new principles applied by leading companies to budgeting:

- Incentive / Remuneration Targets are linked to external benchmarks. Prior performance and budgets are specifically excluded.
- Strategy related scorecards and metrics measure more than financial targets.
- They have invested in IT systems that centralise information in the company and create a single source of truth.
- They utilise forecasting models that are separate from the financial management systems.

The clear definition of underlying assumptions for forecasts being the main requirement for these forecasting systems.

- These leading companies focus on managing future results as opposed to explaining past performance.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

The common thread to all of the new principles is that they focus on the future rather than on the past and measure success or failure in terms of external benchmarks.

Likierman (2006) proposes the measurement of budgetary process success through the setting of clear objectives for the budget process and definition of clear measures. Measures would include the extent to which the process has been used to meet the needs of operational managers, how closely budget targets align with the detailed company strategy, micro-management is avoided, cross-functional plans are created and sensible targets have been set for incentives that discourage dysfunctional budget behaviour.

### **The evolution of budgeting**

The budget was introduced in England in the Eighteenth century as a means to control government expenditure and as a measure to control the amount of tax levied by the king. It contained a summary of government expenditure for the past year, a forecast for the future year and a proposal of the taxes to be raised. The use of budgets spread throughout various levels of government and was adopted by the United States amid political opposition in 1921. In business terms, budgeting and forecasting have been present since the earliest times but underwent a period of formalisation between 1895 and 1920, supported by Industrial Engineers and Cost Accountants.

Business budgeting continued to develop into the accepted norm and in 1930 the first International Discussion Conference of Budgetary Control was held in Geneva, Switzerland. A number of books and papers were also published on the subject in the early 1930's. (Theiss, 1937).

Traditionally budgets were owned by the finance department and have focused on Sales, Operations, the Income Statement, the Balance Sheet and the Cash Flow; all financial documents with little relevance to operational personnel. As early as 1967, writers like

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Hofstede began writing about dysfunctional budget behaviour in companies. (Hansen et al, 2003). The questions around the value of budgets and budgeting continued to grow and in 1987 Johnson and Kaplan published their book, *Relevance Lost*, which questioned the relevance of existing management and control systems in a changing world (Ahmad Sulaiman and Alwi, 2003). In recent decades, academic research into budgeting focussed on the behavioural impacts of participants, negotiation, linking budgets to remuneration, the role of authority and the level of management participation in budget setting as driving negative behaviour in the budgeting process (Fisher Frederickson and Pepper, 2000; Davis DeZoort and Kopp, 2006; Hansen et al, 2003; Jensen, 2003).

Further research was undertaken into the effects of the degree of participation by managers in budget setting, commitment to goals, information sharing and perceived fairness of budget targets and budget processes on job performance (Byrne and Damon, 2008; Chong and Chong, 2002; Chong and Johnson, 2007; Libby, 2001; Watson, 2002).

### **2.3.2 BUDGETING PRACTICES AND PROCESSES**

Changing trends in budgeting are addressing some of the criticisms levelled at traditional budgeting. Rolling forecasts, flexed budgets, zero-based budgeting, activity-based budgeting and strategic budgeting techniques are being applied by companies who are choosing to improve budget processes rather than dispense with them. (Hansen et al, 2003; Libby and Lindsay, 2007; Montgomery, 2002; Neumann, 2001; Taylor and Rafai, 2003; CIMA and Ross, 2008)

Updated budgeting methodologies include:

- Rolling forecasts or continuous budgets are intended to address the problem of budgets being outdated very quickly. The frequency of re-forecasting and the level of detail contained in

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

these forecasts is industry dependent. Industries that operate in volatile markets where conditions change would require budgets that are updated more frequently, Banking is largely impacted by the rate changes from the reserve bank, thus rolling forecasts are used (CIMA and Ross, 2008).

- Budget flexing adjusts budgets to align with actual output or sales based on standard costs or revenues per unit (CIMA and Ross, 2008).
- Zero-Based budgeting focuses on the complete review and re-justification of expenditure with every budget cycle - usually annual. In theory, this approach requires managers to re-assess the business relevance of all their activities and expenditures (CIMA and Ross, 2008). It is time consuming and labour intensive.
- Activity-based budgeting uses cost drivers (from Activity-based costing) and levels of forecasted activity to develop a budget (CIMA and Ross, 2008). This methodology supports the best integration between sales and operational plans as the operational plan is developed based on the planned sales and sales mix.
- Strategic Budgeting borrows from a technique developed by Eliyahu Goldratt in 1997 to remove unnecessary padding from project time estimates. The base assumption is that over time, significant cost slack has been built into manager's budgets. In year one, all budgets are cut by 50%. The reduced amount is held in a Group Budget Buffer. Managers are able to apply for funds to be released from the buffer if required, provided the request is discussed with other department heads. From year two onwards, the cost synergies in the business are used to maintain the budget buffer. It must be noted that the 50% reduction is only possible in year one to force managers to remove redundancies. (Taylor and Rafai, 2003).

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- Increased management involvement and agreement in budget target setting (Participative Budgeting). A great deal of research has been undertaken in this area. In summary, the findings are that managers' job performance will be better and will have increased support for budget targets if they are part of the process of setting the targets and perceive the process to be fair. The degree to which there is open communication around targets and performance against target within a company, impacts the results to a lesser extent. (Fisher Frederickson and Peffer, 2000; Davis DeZoort and Kopp, 2006; Hansen et al, 2003; Jensen, 2003).
- Dispensing with Budgets entirely. In 1998 with the formation of the Beyond Budgeting Round Table (BBRT) in the UK, budget theory moved include principles that would allow a company to operate without a budget. Proponents of the method argue that decentralising control and giving managers responsibility for their sub-unit profitability empowers an organisation to be more responsive and adaptive. (CIMA and Michael, 2007; Hope and Fraser, 2003a)

### **2.3.3 CURRENT BUDGETING DEBATES**

Two major schools of thought developed around budgeting, the first and earlier school consists of practitioners who want to improve budgeting. This led to the development of newer and better ways to budget, inter alia, zero based budgeting, flexed budgets, activity based budgets, rolling forecasts and strategic budgeting etc. (Hansen et al, 2003; Libby and Lindsay, 2007; Montgomery, 2002; Neumann, 2001; Taylor and Rafai, 2003)

On the other hand, the second school of thought believed that budgets were no longer relevant in a fast-changing society. In 1998, the Beyond Budgeting Round Table (BBRT) advanced the idea that by decentralising control, exploiting new IT systems and tracking performance

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

against external benchmarks and measures, it was possible to run a company without a budget.

The BBRT cited and continue to cite the successful case study of the Swedish bank Svenska Handelsbanken, which abandoned budgeting in 1972, in support of their arguments. (CIMA and Michael, 2007;

Hope and Fraser, 2003a)

In spite of the negative press surrounding budgets, most companies have chosen to improve the budget processes rather than dispense with budgets entirely. The claim that budgets are fundamentally flawed is also overstated. (Libby and Lindsay, 2007; Shastri and Stout, 2008, Hansen et al, 2003; Ahmad et al, 2003). Whilst budgets and budgeting having been an integral part of the business landscape for hundreds of years, the processes continue to change and adapt. It is also clear that the arguments for and against budgeting will continue for the foreseeable future.

### **Problems with existing budget practices**

Libby and Lindsay (2007) researched the views of members of the Institute of Management Accountants on budgets and their problems. This questionnaire focused on: "are budgets dispensable?", budget criticisms, questioned whether or not budgets are inherently flawed and whether budgets were still required. The majority of respondents stated that budgets are a critical business tool in spite of their flaws.

Budget problems or lack thereof can be broadly grouped into four categories namely; time invested and budget inflexibility, budget gaming, a lack of strategic alignment and a lack of operational alignment.

- Time Invested, budget inflexibility and incorrect budget data. Research results highlight that budgets generally take around 10 weeks to prepare, with individual managers working on

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

budgets for 2 to 3 weeks (Libby and Lindsay, 2007). Financial staff predominantly use Excel spread sheets to prepare budgets. This manual process is prone to error and figures are difficult to change and update. Budgeting is also seen as a time-consuming process with limited value at the end of it. Although this is changing, the budgets are usually fixed and do not take account of changes in market conditions. Budgets are often prepared using estimates, guesswork and unsupported assumptions, leading to incorrect data. (Centage/IOMA, 2007; Better Budgeting Forum, 2004; Bourne, 2004; Hansen et al, 2003; Libby and Lindsay, 2007).

In addressing the problem of budgets becoming irrelevant, employees spend increasing amounts of time preparing and updating forecasts, leading to inefficiency (Barrett and Jelly, 2007; Keogh, 2008; Thomson, 2007).

- Problems caused by linking budgets to incentives and rewards, also called budget gaming. This is the most researched area in respect of budget problems and is the main argument used by proponents of abandoning budgets (Hope and Fraser, 2003a; Hope and Fraser, 2003b). One of the earliest references to budget gaming behaviour is found in the work by Hofstede in 1967 (Hansen et al, 2003). Examples of managers spending money at the end of a year to keep their budget intact for next year have been found, "use it or lose it", especially where budgets are prepared on the basis of the previous year's actual figures plus or minus a percentage. Managers have been known to "take a bath", incur losses or major expenses where they know they will not meet their budget targets for a year. "Sandbagging" is a common term in use where managers try to get easily achievable budget targets for the next year. This is most prevalent where financial bonuses are tied to the extent to which managers exceed their budgets in the year. "Pipeline filling" occurs when managers persuade customers to buy more

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

stock than they need in order to meet sales budgets. In many cases, this is coupled with the practice of customers returning the stock at the start of the new financial year. Finally, managers will defer necessary expenditure to ensure that they meet budget targets. This is especially prevalent in the maintenance and capital investment areas. (Better Budgeting Forum, 2004; Fisher et al, 2000; Hansel et al, 2003; Libby and Lindsay, 2007)

Fisher et al (2000) assessed the extent to which participative budgeting in which subordinates and superiors jointly agree on budget targets through a process of negotiation. They found that budgets set in this manner contained less slack and found that where budgets are unilaterally imposed this had a “significant detrimental effect on subordinate performance”. Not all effects from linking remuneration and budgets are negative. By using budgets to both allocate scarce resources and for compensation, it is possible to improve employee performance and reduce budget slack (Fisher, Maines, Peffer and Sprinkle, 2002).

- Lack of Alignment between Company Strategy and Budgets.

Budgets are inadequate in helping businesses align their plans and their strategies. In response to this problem, in 1992 Kaplan and Norton (2007) transformed the way managers and executives viewed performance metrics with the balanced scorecard. The four lenses (quadrants) in this model i.e. Financial, Customer, Internal and Human Capital will assist in assessing the extent to which the planning and performance management metrics focus the activities of the company on the core strategies. To quote Kaplan and Norton (2007 p 161), ‘the balanced scorecard provides a framework for managing the implementation of strategy while also allowing the strategy itself to evolve in response to changes in the company’s competitive, market and technological environments’. In 2004, Kaplan and Norton (2004) published their book on Strategy Maps. The purpose of the book is to

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

assist managers in visualising their strategy and simplifying strategy implementation and tracking.

In spite of this, executives still struggle with the alignment of plans and targets. Participants at the Better Budgeting forum (2004) stated that the cause and effect linkages between the four quadrants are difficult to prove and those financial managers find it hard to trust nonfinancial data (Better Budgeting Forum, 2004). Shastri and Stout (2008) found that the budget is the main part of the firm's strategic planning process and that balanced scorecards are one of the most frequently used practices in conjunction with budgeting. Budget gaming, the inflexibility of budget data and the disconnect between finance and operations during budgeting are key drivers of the lack of alignment between strategy and budgets Cokins" (2008). Strategy maps (Kaplan and Norton 2004), balanced scorecards (Kaplan and Norton 2007) and driver-based capacity planning are solutions to overcome the misalignment. Driver-based capacity planning utilises activity-based costing methodologies to develop budgets. Detailed operational budgets are prepared and consolidated to calculate total company profits (Cokins, 2008). This latter planning methodology is also favoured by the proponents of Beyond Budgeting.

Traditional budgeting also strengthens vertical command-and-control in organisations. This is in conflict with the more decentralised, empowered organisational structures being implemented today (Bourne, 2004). Organisation structure is one of the most tangible ways of implementing strategy and if the budgeting process cannot support that structure, it is failing to support the strategy.

- Lack of Alignment between Budgets and operations.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Neumann (2001) looked at the integration of the firm's enterprise resource planning software with greater responsibility for budgets being given to operational management. He argues that by transforming budgets from functional documents to process-oriented ones, coupled with simplification, would speed up and streamline budget processes. While Neumann argues that Activity-based costs form the basis of budget simplification, these costs have increasingly lost their relevance in the business world. The overall theme of streamlining budgets by increasing operational controls and simplification has continued value adding potential (Neumann, 2001). (Shastri and Stout, 2008; Centage/IOMA, 2007; Hansen et al, 2003; Bourne, 2004; Libby and Lindsay, 2007; Thomson, 2007; Barrett and Jelly, 2007; Keogh, 2008; Fisher et al, 2000)

## **CONCLUSION**

Managers are managing organisations on behalf of shareholders to maximise wealth. Theory of constraints provides a guide of how to maximise through-put by identifying the constraints; the latest thinking being removing constraints from internally in the organisation to externally to the organisation (the market), e.g. market size and demand. Budgets are seen as an indispensable tool for managers to achieve organisational goals and maintain control. Budgeting problems continues to be a topical issue in business and academic writing; however budgets remains a key management tool available for planning and allocating scarce resources within an organisation. Budget gaming is seen as one of the major flaws of budgeting. The "Beyond budgeting round table" movement advocates for organisations to do away with budgeting; however their work is still in its infancy, and the researchers have acknowledged there is a great deal of work still required to make it workable for organisations. Recent surveys (Libby and Lindsay) confirm that the budgets are still deemed valuable within organisations. The journey to device workable solutions requires an understanding the "real" problems in the relevant context as a starting point. A lot of research has been done in international settings

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

---

and not much has been done in a South African context. Blogs on the internet are raising a concern of looking at theoretical and philosophical answers generated by academics with no practical experience. The process of getting to workable solutions will be guided by asking the right and relevant questions to the practitioners.

## CHAPTER 3: RESEARCH QUESTIONS

### 3.1 INTRODUCTION

According to Saunders and Lewis (2012), to end up with a suitable research question, one needs to try subjecting it to the “Goldilocks” principle. Research questions need not be difficult or too easy. Finding the balance is the critical aspect of ensuring good research questions which will lead into research objectives.

From the literature review, it is clear that traditional budgeting has presented problems, however managers continue to see budgeting as an integral part of strategy and planning for their organisations. (The Better Budgeting Forum, 2004; Libby and Lindsay, 2007).

Elected questions are as follows:

#### **3.1 Research Question 1**

Do South African managers face similar challenges as their international counterparts? Do managers follow the same budget processes as their international counter parts? ?

- *The research question above will seek to validate the international literature reviewed against the back drop of the South African context. Major literature review is based on the international companies.*

#### **3.2 Research Question 2**

Do managers believe their counterparts are playing budget game?

- *The research question above will seek to assess the level of awareness in budget gaming in their organisation. It is intended to assess whether the managers acknowledge*

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*that there are budget games within their organisation (as literature reviewed stated that budget games are prevalent).*

### **3.3 Research Question 3**

What do managers perceive to be the major cause of the budget games?

- *The research question per above will seek to uncover what the managers perception is as to why their colleagues engage in budget games.*

### **3.4 Research Question 4**

Do the managers believe that budgets add value?

To what extent are they impacted by the “gaming” behaviours?

- *The research question per above will seek to obtain the perception and views of managers whether (in line with international studies) deem budgeting to be integral to business and of value-add. And also seek to find to what extent are their influenced by “budget gaming” to an extent that they also “join” in.*

The above questions are not exhaustive and as will be discussed in the research methodology section, these were followed by follow up questions depended on the interviewee’s responses.

## CHAPTER 4: RESEARCH METHODOLOGY

### **4.1 INTRODUCTION**

This section provides details of the research method used to achieve the research objectives. Saunders and Lewis (2012) argue that research that is undertaken should be supported by a research design suitable for that research type. Qualitative research is undertaken to explore areas whereby there is little known about the subject, to further understand the topic being researched. Qualitative research focuses more on quality of understanding and insights rather than quantity of sample size. Qualitative methodology is linked to constructivism. The primary aims of the constructivism paradigm are to understand the complex nature of issues and people in their social-cultural context and to describe the meaning they associate with their experiences and actions. (Saunders and Lewis, 2012. Bear-Lehman, 2002. McGivern, 2003).

Whilst previous research had been done on whether companies still use budgets or not (Duglane and Lyne, 2006); Whether they add value or not (Lindsay & Libby, 2010) and huge criticism on the time they take, inflexibility and mis-alignment to strategy, (Ekholm and Wallin, 2000; Neely et al., 2003, Hasen, et al 2003): there is still considerably little done on understanding the reasons behind the budget games that managers play, especially in the local south African context. This has led to the need for this research paper. Qualitative research design was chosen as the researcher wanted to explore the topic in detail with the practitioners who are described in detail under the section “Unit of Analysis”.

### **4.2. RESEARCH DESIGN**

The researcher conducted qualitative research. Quantitative research has already been done in the form of electronically administered surveys (Libby and Lindsay (2007), Shastri

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

and Stout (2008) and Bourne (2004)) hence the research took a mono-method. The researcher conducted In-depth expert interviews. The interviews took on average just under an hour each; some experts took as little as under over thirty minutes (due to time pressures) whilst other took over an hour. The interviews were in the form of face-to-face interviews to enable the researcher to probe and observe respondents reactions and the ease with which answers are given. Saludadez & Garcia (2001) states that the researcher needs to observe body language and the ease at which the responds answer when conducting qualitative research to find meaning in the response. Zikmund (2003) supports the ideology and further asserts that the advantage of qualitative research is that the interaction with the respondents allows for further probing. Daft and Lengel (1983) agree, saying that the preceding answer offers an opportunity to question further.

Voice recording equipment was intended for use for all interviews however some interviews could not be recorded as the interviewees declined to be recorded. In this instance, the researcher wrote onto excel spread sheet the feedback from the interviewees.

The interviews were held in the interviewee's preferred location, mostly at their offices and in boardrooms. The researcher travelled to the interviewees and all costs were borne by the researcher. The interviews required no preparatory work from the interviewee side given the exploratory nature of the research. The research questions were used in the interviews and these had sub questions which were in a semi-structured format to maintain consistent themes across the different interviews; however dependent on the interviewee's responses, additional questions were asked to follow up and probe to ensure understanding of the interviewee's response. The questions were open-ended thus allowing the responded to add insights that cannot be commonly factored into a questionnaire with structured close ended questions. The aim was to obtain feedback, understanding, insights, context and the

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

attitudes around budgeting processes and the reasons why managers generally engage in budget games.

This topic requires interviews in-depth expert interviews to delve into the subject and gain insights into the problems as stated in the research problem. All the interviews were personally conducted by the researcher to ensure consistency.

#### **4.2.1 POPULATION**

The population is individuals that participate in budgets within the organisational setting in the bank; that is finance (financial managers) and business heads (non-financial managers) that either prepare or participates in budgets discussions, strategic direction discussions and have scorecards measuring performance to budgets. Managers had to be responsible for managing of budgets, be it revenue or cost budgets. The finance heads had to be individuals with at least three years' experience working experience and have been through a minimum of two budgeting cycles. The reason for the criterion was to enrich the quality of the research, as the greater the experience, the greater the exposure to budgeting within various settings.

The business heads (non-financial managers) had to have been exposed to two budgeting cycles and additionally they had to have the responsibility of generating revenues as well as looking after costs for the business. Both these individuals had to be involved in budget debates, discussions and processes as well as scorecard measurements and had to be familiar with financial reporting that is either generated monthly, quarterly, half yearly or annually by use of performance against target. It is estimated that there are over 2000 finance managers and non-financial managers within the financial services sector that fit the

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

population description for the purposes of this research, however they are spread around the different organisations and locations.

### **4.2.3 UNIT OF ANALYSIS**

Trochem (2006) states that the first step to be taken in deciding how the analysis of the research will be done are to define the unit of analysis. The unit of analysis were the individuals; the financial managers who prepare budgets and non-financial managers who heads up a department and are responsible for budgets, both costs and revenue. The following terms and words were used interchangeably and have the same meaning within the context of this research paper:

- CFO, Finance Heads, Finance Manager, Finance executive.
- CEO, Business Head, Non-financial Manager, Business Executive

### **4.2.4 SAMPLING METHOD AND SAMPLE SIZE**

Saunders and Lewis (2012) mention that a non-probability sample is suitable for areas whereby the population total is unknown, and there is no sampling frame. Sample sizes are a function of many variables such as time constraints, budget availability, measurements versus insights, respondent's availability and whether the research design is exploratory, causal or descriptive in nature (Czaja and Blair, 1996). Given the time frame to deliver this research and the type of research being undertaken, qualitative, a sample size of eighteen financial and non-financial managers were be chosen. Non-probability sampling technique was used, to derive at a purposive sampling method. Purposive sampling was chosen as the research topic required interviews with a specific group of individuals who fit the criterion stated in the population section. There was one incident of snow-balling, whereby a financial head referred and introduced the researcher to his colleague. This type of sampling was

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

chosen to save time and of course to ensure that the chosen sample fit the criteria to ensure quality of the research.

#### **4.2.5 SAMPLE FRAME**

It was estimated that there were over 2, 000 managers with profit and loss responsibility in the banking environment, for the purposes of this research, only a sample of eighteen interviewees were interviewed. The managers interviewed were in management positions. The managers were members of the executive management teams with opportunity to discuss the strategic direction of the company/business unit and had over two years budgeting experience to ensure that they were not new to the budgeting process and could discuss their own experiences and were able to provide input in terms of their perception of the budget process and what they thought were major causes of the budget game.

#### **4.3 DATA COLLECTION**

The choice of an appropriate data collection method was dependent on (i) the volume and variety of the data required (ii) the objectivity and reliability of data required and (iii) the cost and duration of the study (Martins, Loubster & van Wyk, 2002)

Primary data was collected directly from the sample of individuals as indicated above; it was collected by means of in-depth face-to-face interviews each being approximately an hour long. Data was collected from the sample chosen through non-probability sampling technique, expert interviews were held with both the finance and non-finance business heads within the elected sample. The interviews were segmented broadly through common themes which were in line with the research question, aims and propositions. The data collection happened through interviews that were self-arranged by the researcher, and met

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

with each expert on a one to one basis. The interview allowed for the expert to elaborate on the subject and the interviewee's anonymity was assured.

The researcher was invited to an executive committee meeting discussion budgets. He used the opportunity to observe the interactions between the executive members.

### **4.3.1 RESEARCH INSTRUMENT**

A semi-structured list of questions was prepared, and these questions were asked to each of the interviewees, all interviews were personally conducted by the interviewer to ensure consistency. The main thought behind the interviews was to allow the experts to express their opinions derived through experience and further share insights into the reasons why managers play budget games and their own perception of budgets. The questions posed were set in a way that they answer the research questions.

It was not possible to for the researcher provide a full list of the questions to be asked as would normally be the case with a structured interview process. Follow up questions were based on the interviewee's preceding answer.

### **4.3.2 RESPONSE RATE**

The achieved response rate was high however due to various reasons, only eighteen of the twenty managers were interviewed. Some of the reasons include time pressures and being away from office. The response rate represents a response rate of 90%; however the limitation to the research is that 94% of all interviewees were from the same organisation.

### **4.3.3 DATA ANALYSIS**

Content analysis is the application of reasoning to understand and interpret the data that have been collected (Zikmund, 2003). The data was prepared and structured into the common themes as per the design of the questions and incorporated additional feedback that may come up into their new categories.

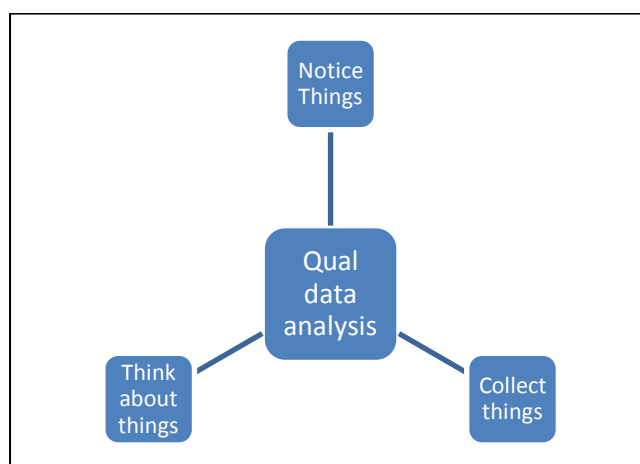
### **4.3.4 LIMITATION OF RESEARCH**

The research is based on perceptions of managers at a local bank, which in itself is bias as the sample is largely limited to one company, 94%. However the data collected revealed that whilst they all are employed within the same group, each cluster is autonomous and operates as an individual company. The researcher bias is also apparent as the research is a finance practitioner; whilst great care has been taken to analyse the data independently, bias error is the possibility of seeing matters through finance lens. Additional bias is found in the location of the interviews; all interviews are held at the company premises, be it the offices or boardrooms. Given the formal setting, it is possible that the feedback might have differed should the research had been conducted at their homes or any other informal location such as restaurants whereby the interviewees would be more relaxed. Further research will need to be done to promote a new model which companies can use towards mitigation of budget games. The research is confined by the time period in which it has to be conducted and the sample size is not statistically significant.

## CHAPTER 5: RESULTS

### 5.1 INTRODUCTION:

This chapter describes the data gathered during the empirical phase of the research. Data was analysed using content and comparative analysis techniques in order to identify common themes. Neuendorf (2002) states that it is a process of looking at data from different angles with a view of identifying keys in the text that would corroborate or disconfirm theory. The interview questions were asked in order to answer the research questions as mentioned in Chapter Three. The results are separately presented for each of the four questions. The research data is presented in tables, figures and in narrative format. The process followed entailed an “iterative process” as defined by Seidel (1998). The model consists of three essential elements which are noticing, collecting and reflecting (thinking about). Seidel states that these three elements are interlinked and cyclical. For example, as one is reflecting on the data they have collected, they may notice specific gaps in the data, and request additional time with the interviewee’s to get additional data to close the gaps. Seidel further likens this process to solving a jigsaw puzzle.



*Seidel (1998), First Steps in Research, page 100*

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Data gathering as stated in Chapter 4 (research methods) was facilitated through eighteen semi-structured interviews with the finance and business heads that were identified as key stakeholders for the purposes of this research report and have a stake in the outcome of this research given their exposure to budget processes. Interviews were conducted with 11 finance heads (financial managers) and seven business heads (non-financial managers) in Johannesburg, at their offices. Coincidentally the interviews were held during the budgeting cycle for most of the interviewees. They were in the process of formulating three year plans and budgets. Only seven business heads were available and could be interviewed within the time frame that this research was required. Majority of the business heads were not available due to time pressures. Interview times were mostly during the course of the day, in the form of a formally set meeting in a boardroom or the interviewee's office.

The interview questions were structured into two phases: the first five to ten minutes were warm up questions to relax the interviewee and assure them of their anonymity and confidentiality. The warm up questions were mainly to obtain information on the background of the interviewee against the pre-determined criterion for the sample; for instance how long they have been in their current role, how long they have been involved in "formulation of budgets" and "reviewing budgets" and how they typically spend their day during the budgeting period. This was also an opportunity to create an environment for the interviewees to provide honest input.

### **5.2 BIOGRAPHICAL DATA TABLES**

20 interview requests were sent out to the selected sample; only 18 responded. This reflects that a 90% response rate was realised. From the 18 respondents, 11 were financial managers in senior positions and seven were business executives.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Figure 1

The table below shows the respondents by function (role)

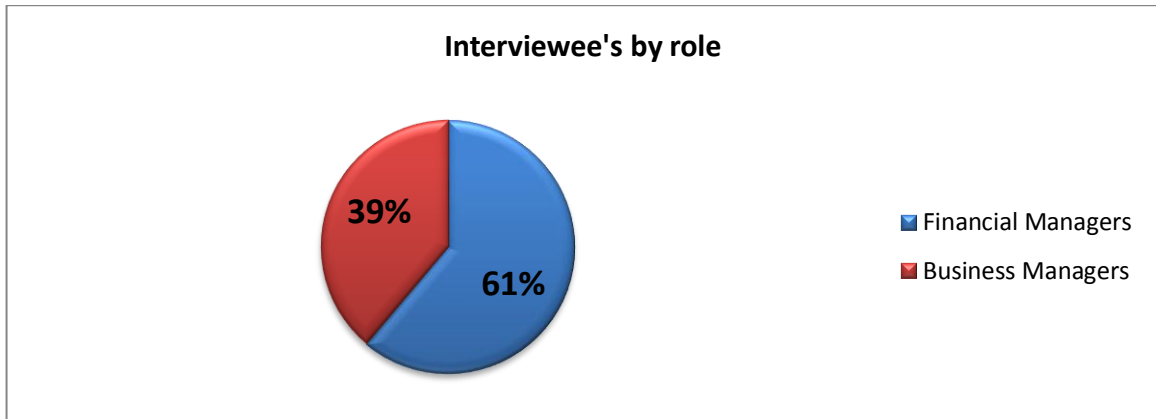
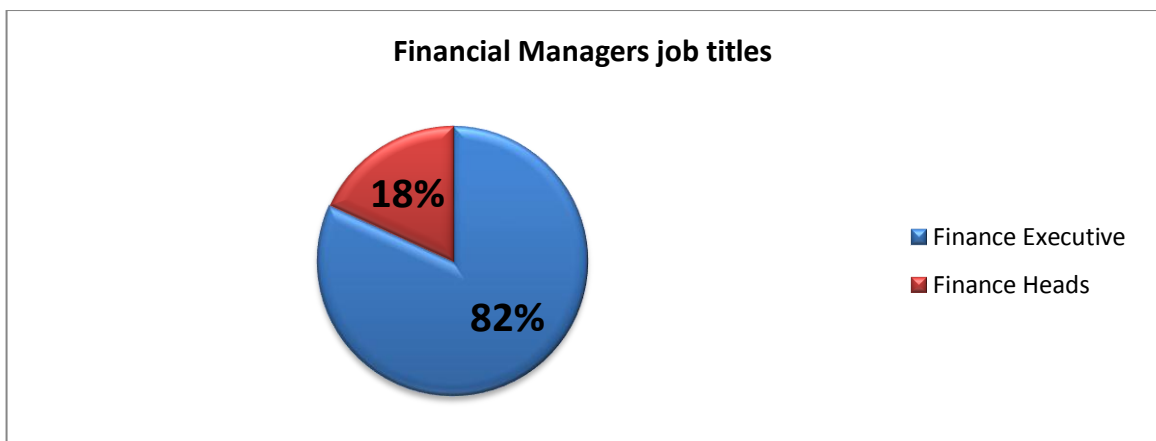


Figure 2

The table below shows the split of financial managers.

The financial managers job titles varied between Finance Executive and Finance Head.

Nine of the eleven financial managers were Finance executives, with the remaining two with the job title of Finance Head.



**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*



Figure 3

The table below depicts the overall tenure of the financial managers in financial management practice including exposure and experience in budgeting processes:

55% of the financial managers interviewed have been working with budgets for over 10 Years, 27% for over five years; only 18% have had a less than three years' experience with budgets.

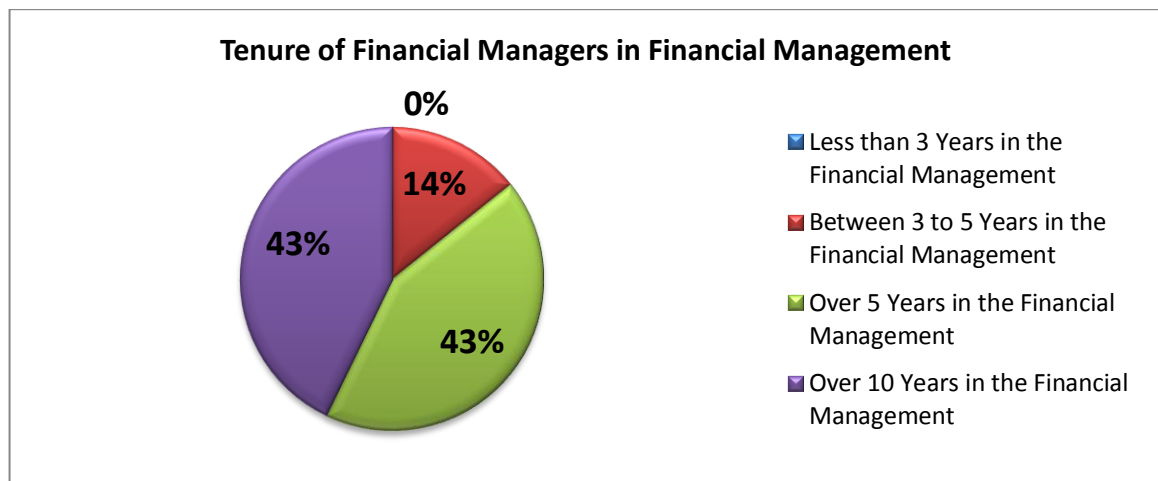


Figure 4

The table below depicts the financial manager's tenure in the current role.

Majority of the financial managers have been in their current role for over five years, with only four with less than 5 years' experience in the current role.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

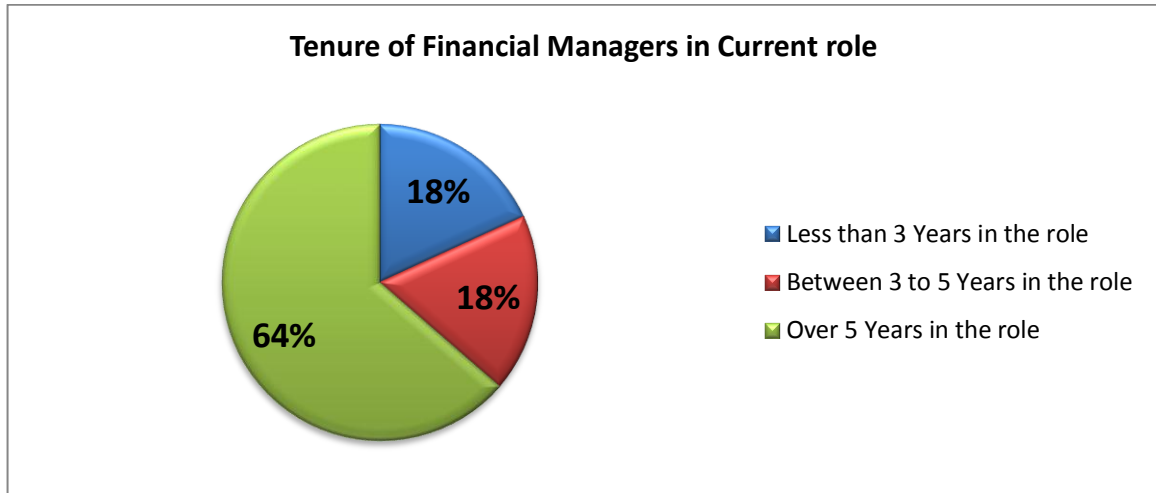
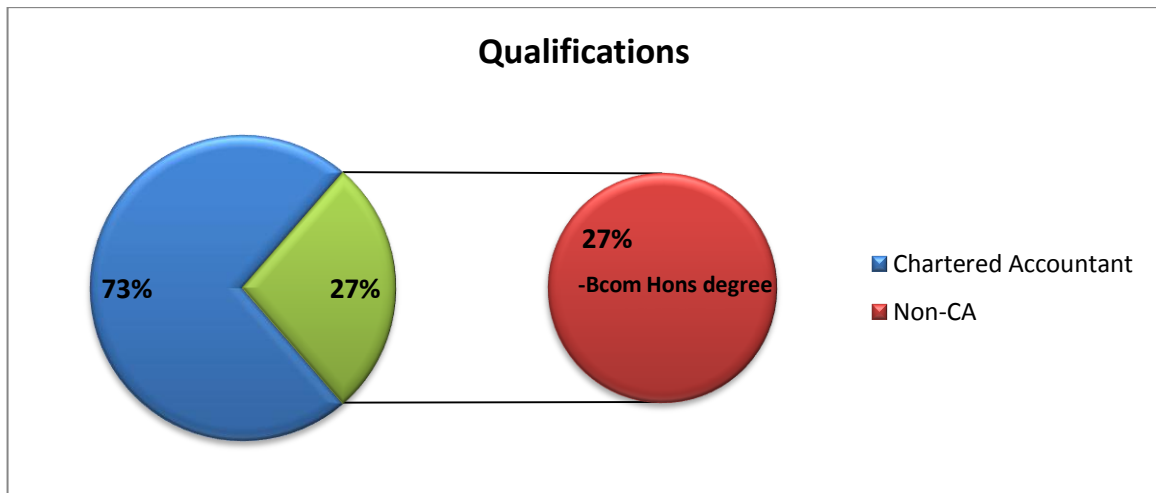


Figure 5

The following table depicts the qualifications of the financial managers interviewed



The sample details met the requirements of the research as stipulated in the research methodology section. They have been involved with budgets for over 3 years and have been through at least two budget cycles. In fact, most of the executives have been through more than 5 budgeting cycles.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Figure 6

The table below depicts the gender and race which is of no relevance to the research being conducted.

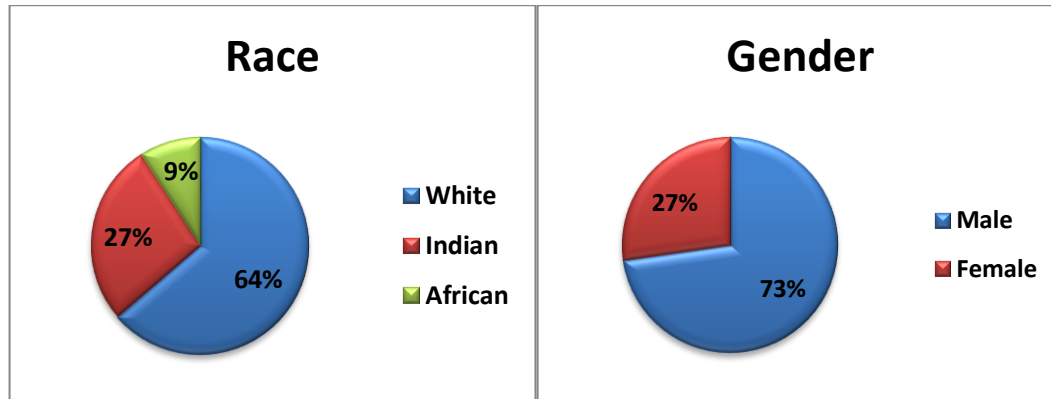


Figure 7

Over and above the eleven financial managers; seven business managers that were also interviewed. The table below depicts their job titles.

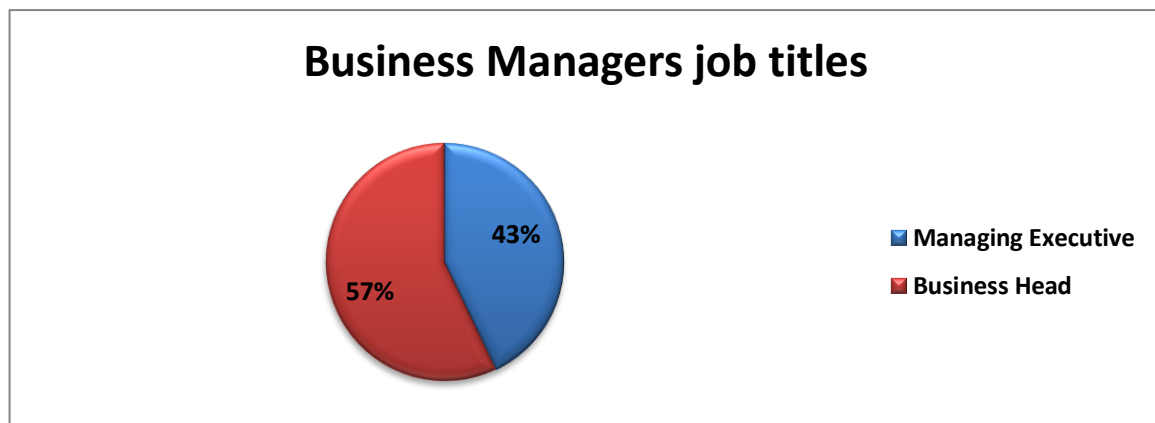


Figure 8

The table below depicts the tenure of the business managers in managing a business unit. 55% of managers have been in business management roles for over ten years,

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

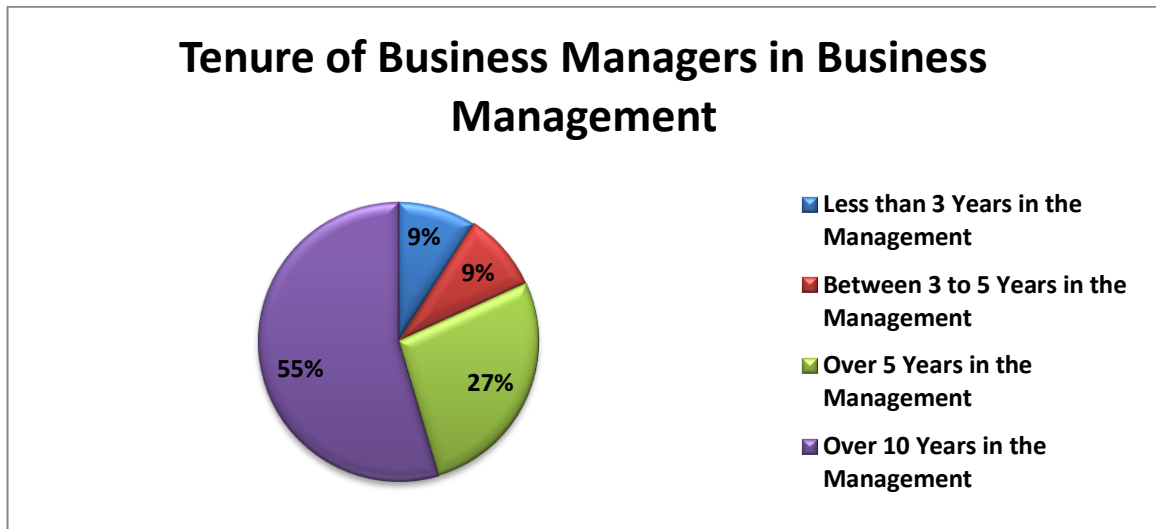


Figure 9

The table below depicts the tenure of the business managers in their current roles. Majority of the business managers have been in the current role for less than 3 years.

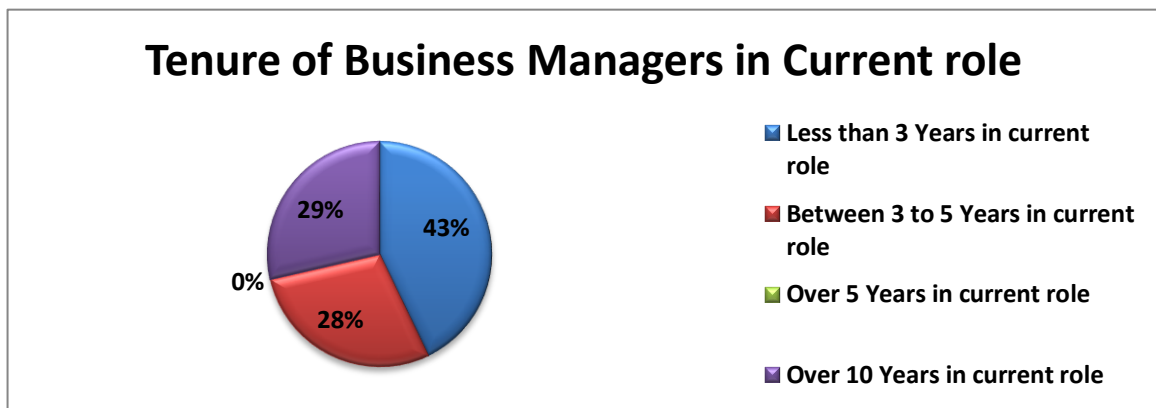


Figure 10

The table below depicts the business manager's qualifications.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

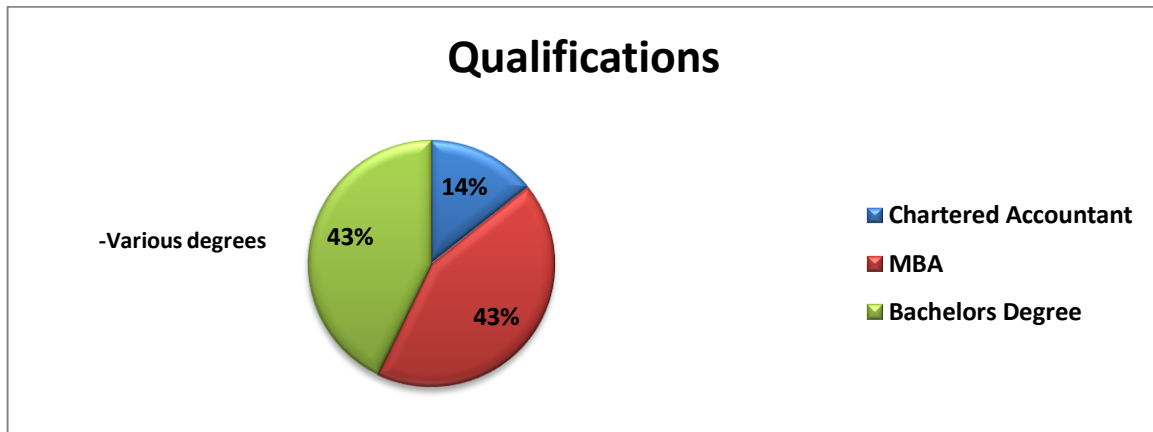
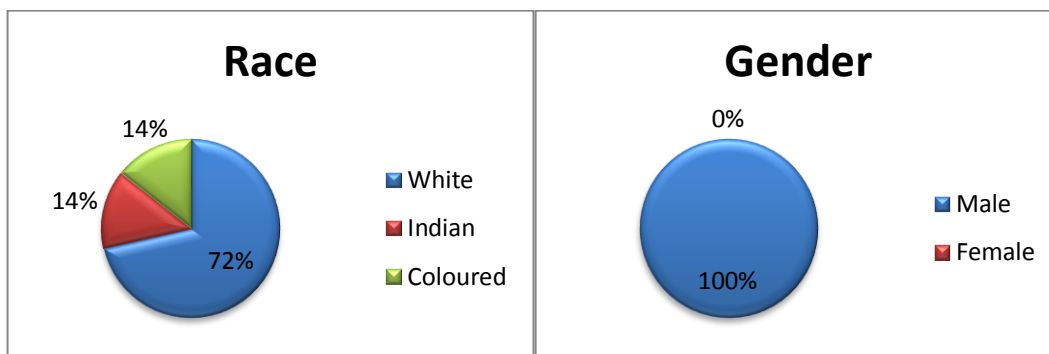


Figure 11

Whilst race and gender was not part of the criterion for the selection purposes of this research; the interviewee’s race and gender were as follows



**5.3 Interviews data**

The following section outlines the data received during the interviews per interviewee excluding the warm up and non-critical follow up questions.

Interview 1: Business Executive.

The first interview was held with a business executive (CEO of a business unit), He had 28 years of service in the bank, and his career is from an operations background. He was in his late forties. The interview was held at a boardroom with close proximity to his office, it was

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

conducted in the afternoon, 15:30pm. Whilst the researcher had advised all interviewees that no preparatory work was required, it appeared that the interviewee was well prepared. He had a suit on and was very formal and eloquent in his speech. In chapter 4, there is mention of the location and room setting and its biased impact on the research.

More questions were asked, however for the purposes of synthesis, only material answers have been pulled out.

### Notable feedback from questions

- a) Please discuss in detail the process followed by your division in coming up with budgets?

*“Vince, we do a very detailed process. We believe in bottom up approach, done per branch by region. This is consolidated at the centre, thereafter presented a level up (exco), and adjustments are then made based on the discussions a level up. This process can have several iterations, as many as five iteration within my team, and about 3 a level up; till we agree to final numbers. It is a very robust approach” sic.*

- b) Now, how do you know that region A has adequate budgets which are comparative to region B? (Do you think some of your regional heads try playing budgets games?)

*“It is a very robust process, obviously people will try to get as much as they can, however we are working with limited capital funding. What we do is standardisation, whereby we follow certain assumptions which are adopted across the regions. These assumptions are provided to us by Group. I do my own check of what do they have to take into account which has exceptional impact. I ask all the functional managers for their input then I apply my own mind to the process. On the sales side, we use the budgeting model that looks at the potential per micro market, the target (budget) is based on scientific facts and the regions provide some of the qualitative feedback, which is reviewed at the centre to ensure that it is reasonable”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“There is a principle that I apply: the capital that we have available is scarce and we need to spend it judiciously. I am not in the movie of sandbagging or being so tight that we know we are not going to make it.”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours?)

*“It is very important to understand the levers that are available in the performance of a business, for instance productivity and participation. I must say that Person X (CEO of the business) pushes us very hard in this process. It is a detailed process. It takes a high level of maturity; we need to have an organisational mind-set first and work together to make the overall organisational goals.”*

- e) Do you find value in this process?

*“Absolutely, it forces us to think of what is important to make the challenging decisions; not everything is important and through the iterations we think hard of we should do more of and what do we should do less of. First version of the budget, we ordinarily regard everything as important, within the iterative process, we chose what is of strategic importance, with the guidance of senior executives.”*

- f) What you would you change in the current budget process?

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*“We need to improve the organisational mind-set, to have a really consistent strategic alignment across the business. The prioritisation can be improved to ensure we allocate resources correctly.”*

The business executive interviewed was well prepared, and the researcher picked up (based on his judgement) that the executive could have told him what he needed to hear as opposed to what was really happening in the business.

### Interview 2: Finance Executive

The second interview was with a Finance Executive. He was a middle-aged finance professional; he is a qualified chartered account and has been working in finance roles for the duration of his career. He has been working for the bank for the past eleven years as at year 2012. The interview was conducted in his office; at 8h00am on Friday. He seemed rather relaxed as also noted with his dress code; pair of jeans and a collar t-shirt. He gave additional resources for the researcher to look at that he deemed could assist with the research project. I.e. Past presentations by the CFO and the CEO, analyst presentation and strategy document PowerPoint packs.

### Feedback from some of the Questions

- a) Please discuss in detail the process followed by your division in coming up with budgets?

*“The most important piece in the process is the discussions that happen prior to the budget setting meetings. The strategic setting process that happens in October is the key kind of strategic setting period, that is kind of when you look at all the strategies were said we would do in the prior year; what worked, what did not work, are we going to change direction, or are we going to tweak certain areas, what new things are we going to do. It is not so much about the numbers; it is about the initiatives that we are going to do.”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- b) Now, how do you know that Cluster A has adequate budgets which are comparative to Cluster B? (Do you think some of your Cluster heads try playing budgets games?)

*“I think the main thing is aligning everything back to what was committed to at the strategy setting discussions. We are still not good with putting numbers that aligns to the strategy, but it has improved over the years. We do re-forecasting every quarter where we spend hundreds of man hours, and these highlight those instances.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“We had a slide that showed year from 2010 all the way to 2014 on the built up of the headline earnings, I can recall Jane\* (name of line executive manager changed) saying that it is very mediocre. The process of peer reviews together with the level up managers is robust and the leadership team is integral in that process. You cannot have a silo view at a senior leadership level; we need to have a cluster view”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“When people do not buy into the strategy, they become self-absorbed and do not support the greater strategy. But what we have seen is they leave the business”.*

- e) Do you find value in this process?

*“For me the strategy setting process is key critical.”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

f) What you would you change?

*“It is the whole things about the change management and the alignment at a senior level. If you 100% alignment, their responsibilities and the way they are measured. It depends where you are in the organisation maturity level and organisation stage. Cognos has been built to report per product, systems are set up in a silo way and cause major issues”.*

The finance executive interviewed operates at the “centre” and not within a specific business unit. He is more strategically inclined and has no responsibility of delivering the numbers. He consolidates the numbers for the different clusters. Given his position, he was able to share more information “off record” of what he witnesses as he consolidates the information for group. He advised that at times the numbers do not make sense at all. And the businesses’ that had submitted those “senseless” numbers would be defensive. He attributes those behaviours to *“being caught too much in the detail”*. For instance one of the finance executives had advised him that they will never reach a certain level of revenue lift as he had done the calculations based on historic performance. The calculation entailed counting of sales people in his departments, average output per day, per week, per month and per annum. Based on his calculations he could only deliver X revenue. He advised that he typical witnesses such situations and in his view was because they (the business and finance executives running divisions) are caught up in the detail that they do not lift their heads to look at what is possible. Through additional capital allocation and finding efficiencies, that business was able to double the revenue lift in the subsequent 3 years.

Interview 3: Finance Executive

The third interview was with a female Finance executive. She is young relatively to her peers, she is in early thirties. She has been with the bank for just over seven years and she is a qualified chartered account. She seemed stressed for time and made mention of the

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

next meetings she had to go to. The interview was held in the afternoon during office hours on Tuesday, 15h00. She was dressed in formal wear.

### Feedback from questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“We set-up meetings with the exco team, the business heads; we look inflation and at projects on the go. We essentially do a base plus but take into account new projects”.*

b) Now, how do you know that region A has adequate budgets which are comparative to region B? (Do you think some of your regional heads try playing budgets games?)

*“It is a debate process, we have to have the discussion, It is a negotiation of what is critical, we set-up meetings with the exco team, the business heads; we look at projects in the go, what is the inflation. We essentially do a base plus but take into account new projects”.*

c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“Q0 (Budget) is seen as the performance management target, people will ensure they achieve.”*

e) Do you find value in this process?

*“Yes, we need to two big processes to ensure the numbers are realistic. We do bottom up detailed budgets to negotiate.”*

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

f) What you would you change?

*“The performance management culture driven by budgets, for instance Q0 is the number that gets measured. Budget dictates rewards. I think the issue is with the leadership teams at group who may not understand our business yet provide targets.”*

The finance executive interviewed was relatively young as compared to her peers. She is the only finance executive of that age, majority of the executives are above forty years of age. She seemed to be rather “activity” focused and operationally orientated. She did not have a view of whether her counterparts play budget games; she seemed disinterested in what other departments/business units do. She discussed the incentives a lot, and they came out as the driving force behind the business she works in. It would seem that they work the scorecard game to achieve what needs to be achieved and maximise their bonuses. This as mentioned in chapter 4 on limitations, could be a researcher bias whereby the researcher’s judgement is used to assess the circumstances, setting and the interviewee’s feedback

### Interview 4: Finance Executive

The fourth interview was with a male Finance executive. He is in his early forties, have in finance for over 14 years and he is a qualified chartered account. He seemed quite relaxed; the interview was held on a Friday morning at 10:00am in a boardroom close to his office. He was seven minutes late for the interview. He had casual clothes on, a jean a collar t-shirt.

### Feedback from questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“The budget is an extension of your strategy, so basically, you can’t have a finance person putting up a budget together and meanwhile the strategy says something else.*

*That doesn’t make sense. The start of any planning process is the strategy process:*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*where are you now, and where do we want to be in three or five years. I won't say we start from zero bas; but we don't say you a million last year, here is a million and a half, no. It does work that way, we look at where you spend was, and look at where the future spend should be."*

- b) Now, how do you know that region A has adequate budgets which are comparative to region B? (Do you think some of your regional heads try playing budgets games?)

*"Budgeting is not something new, we know what the margins are, what the volumes are; If you do it properly once, then every year will be better, if you do it badly once, then every year it's going to be a bad. It is not easy. Budget has never been easy. You have to know what your competitors are doing, what volumes they are writing, what products they have, within that environment we need to know what your (Business head) position is, what is your actions and what are the financial implications".*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*"They will try...but I think in reality you do not go away with soft budgets, let's say we all agree that we will go in with soft budgets, the reality is it means I (CFO) am not doing my job. Then it will be someone else (a level up) that says it is not good enough. You either going to come with bottom up of how you will reach your stretch targets or someone will give you a top down..."*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*“You are going to measure someone on what they say, the trick is you need to find a perfect balance between achievable and stretch. As a CFO you create the tension, you say that on behalf of the shareholders we don’t believe that this is not good enough...you high, they go low, it’s not an easy place but it’s a process you have to follow.*

e) Do you find value in this process?

*“Yes. I think the finance people are independent within this process.*

f) What you would you change?

*“I think the process works well, the one area I would change is around the cost areas out of your control. And another area is the systems.”*

The researcher had a view that the interviewee was not completely transparent. The interviewee seemed to rather defend the finance community and focused on the duties of the CFO and their contribution to the business. For instance; a direct question on realising of provisions was asked, to determine whether they do smoothing of numbers, the interviewee’s tone of voice and sitting position changed. He seemed to be annoyed by the question, and asked why he would do that. The researcher re-asked the question and assured the interviewee that he is not referring to him, but wanted to ascertain if he ever encountered such.

Interview 5: Finance Executive

The fifth interview was with a male Finance executive. He was in his late forties, and has been in finance roles for over 17 years. He is a qualified chartered account. He seemed to be an introverted person; the interview was held on a Tuesday morning at 10:00am in a boardroom close to his office. He was formally dressed, formal shirt and pants.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

### Feedback from some of the questions

- a) Please discuss in detail the process followed by your division in coming up with budgets?

*“We are guided by group in terms of the direction they want us to take. What we do is a detailed process internally. We then receive high-level growth rates from group. In most instances we find gaps and we stretch ourselves through strategic initiatives to meet the group targets”.*

- b) Now, how do you know that division A has adequate budgets which are comparative to division B? (Do you think some of your divisional heads try playing budgets games?)

*“The process is we interrogate the budgets as a collective, it is not a one-on-one discussion. The entire executive committee team is present at reviews. Each one of the executives gets a chance to present them to the team. The team has opportunity to interrogate the numbers; so they interrogate each more robustly, obviously I set the tone.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“I would not say so, but sometimes the first version of budgets differs drastically with the final version.”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*“First of all, they need to buy into what we say, if not, it becomes a problem, that’s when you will find there is no common ground. Remember we are also changing things around, and naturally human beings are not so eager to change when change is impacting them, it is a process.”*

e) Do you find value in this process?

*“We would not be doing it if it did not add value”*

f) What you would you change?

*“For me, it is around how we prioritise; we could do more with discussion around the strategic imperatives as opposed to worrying much about the business as usual stuff.”*

### Interview 6: Finance Executive

The sixth interview was with a male Finance executive. He was a middle aged chartered accountant. He had been with the bank for 16 years and has always been in finance roles. The interview was held on a Tuesday morning at 10:00am in a boardroom close to his office. He was formally dressed, formal shirt and pants.

### Feedback from some of the questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“We do a two pronged approach, at group level we obviously have a funding gap, and the cost would go into the clusters that would need to budget for it. The clusters also do a detailed bottom up approach.”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- b) Now, how do you know that region/cluster A has adequate budgets which are comparative to region/cluster B? (Do you think some of your regional heads try playing budgets games?)

*“You get a lot of challenging debates to get the budget right.....There are various ways of doing it, not of all them works particularly well. If your budget was 70% of what you achieved, then it means you under budgeted, and there is a penalty that comes in; likewise if you miss your budget by a huge amount.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“I am led to believe that people will go out and write business as much as they can. The problem is if you are measuring someone against headline earnings, they are going to try put a budget in they can achieve or outperform to get a bigger incentive...”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“The idea of the budget is to make sure that you get a budget that is has got enough stretch in it that you don’t miss and does not have too low a stretch that it is easily achievable, and sometimes the way you measure people is the way they manage.”*

- e) Do you find value in this process?

*“The process entails good debates about where we take the business.”*

- f) What you would you change?

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*“I mean by no means have we got it right yet, .there are still some pockets of silo mentality.”*

### Interview 7: Business Executive

The interview was with a male Finance executive. He was in his late forties, have been in finance for over 17 years and he is a qualified chartered account. The interview was held in a boardroom. It was held during office working hours.

### Feedback from some of the questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“We do a two pronged approach, at group level we obviously have a funding gap, and the cost would go into the clusters that would need to budget for it. The clusters also do a detailed bottom up approach.”*

b) Now, how do you know that region/cluster A has adequate budgets which are comparative to region/cluster B? (Do you think some of your regional heads try playing budgets games?)

*“You get a lot of challenging debates to get the budget right.....There are various ways of doing it, not of all them works particularly well. If your budget was 70% of what you achieved, then it means you under budgeted, and there is a penalty that comes in; likewise if you miss your budget by a huge amount.”*

c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*“I am led to believe that people will go out and write business as much as they can. The problem is if you are measuring someone against headline earnings, they are going to try put a budget in they can achieve or outperform to get a bigger incentive...”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“The idea of the budget is to make sure that you get a budget that is has got enough stretch in it that you don’t miss and does not have too low a stretch that it is easily achievable, and sometimes the way you measure people is the way they manage.”*

- e) Do you find value in this process?

*“The process entails good debates about where we take the business.”*

- f) What you would you change?

*“I mean by no means have we got it right yet, .there are still some pockets of silo mentality.”*

Interview 8: Finance Executive

The interview was with a male Finance executive. He was in his early fifties, have been in finance role for over 32 years and he holds various financial diplomas. Interview was held on Monday; 11:00am. He is a very extraverted person, informal in his approach. He had semi-formal dress code.

Feedback from some of the questions

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- a) Please discuss in detail the process followed by your division in coming up with budgets?

*“You always need to know strategically what the direction is and what influences are, otherwise you are going to get a business as usual budget, grow expenses by 5% , revenue by 5%, It becomes mechanistically process which adds no value, something you can’t reward anybody on.”*

- b) Now, how do you know that region/cluster A has adequate budgets which are comparative to region/cluster B? (Do you think some of your regional heads try playing budgets games?)

*“The budget is a plan, it is a financial commitment, and some people like to call it a promise, I would often tell people, what part of the budget you don’t understand. I can’t go to investors and say listen we promised you a certain level of growth then deliver something else. Low balling is a consequence of weak leadership, I personally see low balling right through when it happens, and it comes with experience.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“It is about the maturity of an organisation, and the maturity of the people, I suppose it is all leadership.”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“It is a consequence of leadership. The other name for low balling is CYA, cover your ass, people are scared to commit, if your job is at risk, you will certainly put in a budget*

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*you can easily achieve. Low balling will not result in a bigger bonus or incentive. It is consequential.”*

e) Do you find value in this process?

*“Budgeting is almost going to the toilet, if you don’t do it, then you are in trouble.”*

f) What you would you change?

*“I would definitely look at the competence of staff and system we still have our silos, but it is not silos in a greater sense of the word, it is healthy competition.”*

### Interview 9: Business Executive

The interview was with a male Business executive. He was a middle aged man, who has just turned 40 years of age, have been in the bank for 22 years and he holds various financial diplomas. He has been in his current job for over 3 years. Interview was held on Wednesday afternoon; 14:00pm. He has just completed his MBA; he was anxious and eager to share his knowledge. He had chino pants and a short sleeve shirt on.

### Feedback from some of the questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“I have an operational business which accounts for 43% of budgets which is pure support that enables strategy. One looks at strategy around efficiency, simplification, automation and doing more with less, strategic intent is how do we strategically drop our cost, costs to service and pass this onto our clients. In essence it is a top down approach.”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- b) Now, how do you know that business A has adequate budgets which are comparative to business B? (Do you think some of your regional heads try playing budgets games?)

*“We show the alignment to strategy, the 55% cost to income ratio should be supported across the two businesses.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*“I wouldn’t know, but I think in most cases, nobody goes out there, especially in our team, to build fat. Yes, there are people who do that.”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“Feeling pressured during the process. What I find is, this is my own opinion, that some people will over promise so they can be liked...will say ah, I’ll cut by R10m while he knows he can only achieve R3m”*

- e) Do you find value in this process?

*“At the leadership level; it is being able to define what you want to spend your scarce resources on. {Budgeting provides the opportunity to do this}.”*

- f) What you would you change?

*“There are people who hide stuff and that is the problem with budgeting, big business hide stuff. That is why I say you have to be careful what you measure. So transparency and honesty are big ticket items for me.”*

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

The business executive interviewed had a problem with “big’ business executive who could hide spend due to their large budgets. Hence he was talking a lot around transparency and honesty. He had just completed his MBA, he was very eager to add “his” theories of what should be done.

### Interview 10: Finance Executive

The interview was with a female Finance executive. She is a middle aged woman, who is in her early forties. She started her career as a financial clerk and has been in financial roles for the duration of her career. She has eleven years’ experience in finance and three years within the current role. She is a qualified chartered accountant. The interview was conducted at “her’ boardroom adjacent to her office.

It was a very formal setting.

### Feedback from some of the questions

a) Please discuss in detail the process followed by your division in coming up with budgets?

*“We forecast, from forecasting we do a target setting. It is getting an understanding of the business, your market, where you are, to determine a realistic target. We normally start at that level which is more a discussion level. That will come up with high level aspirational target. From that process what happens is a more detailed process. Our cluster is made up of different businesses, so we set targets that are higher level; Then from the detail point of view, we do a bottom to see what that is going to give us from a business as usual point of view. From a systems point of view, we have a KPI tool that we set targets on. The detail is processed into cognos system.”*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- b) Now, how do you know that business A has adequate budgets which are comparative to business B? (Do you think some of your regional heads try playing budgets games?)

*“We have had tough discussions over the past two years in the learning process. The tendency in the past had been the idea that we would be asking for more anyways, so the earlier versions would come in low, but the process has changed now that we are more on the “what should we be targeting” and that entail a deeper understanding of the business, the market and competition. It is a level of maturity as well from people doing the budget.....Our operating model is that the financial managers are part of the business, they have dotted line reporting to me. This creates an environment for them to work with the business and advise them without the fear of been seen as “outsiders”. They are not removed from the process and the detail of the business. From my side, I am the totally independent...and this helps with facilitation of discussions.”*

- c) At your level, do you sometimes feel that your peers at an (Exco) Executive committee level are sometimes unreasonable with their budgets, low budgets or high targets (Do you think some of your peers are playing budgets games?)

*REFER ABOVE....”and when people are not buying into the process, and the management, when there are political agendas.”*

- d) And if I may ask, why do some people do that, why would they put in numbers that they know should not be there, low balling or high balling, fat in the budgets, all those types of behaviours? (What is the reason behind these behaviours)

*“We are happy to have the engagements, and you want to ensure that there is an element of relevance on the numbers and they should be aspirational in nature. It all starts with the process, if you do not have the target setting discussions upfront, people won’t know what to submit. The discussions that happen earlier provides a week or two*

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

*for the executives to go away with their teams and discuss plans for their business given the aspirational targets*

e) Do you find value in this process?

*“I think this provides us that are removed from the day to day managing of the business with opportunity to get the detailed plans and understanding of some of the key challenges in the business units. A lot of times, there are non-financial variables that we cannot pick up from desktop analysis, this process is extremely valuable. The discussions, the debates are part of the process.*

f) What you would you change?

*“The time that the financial managers take to get the information from the business; e.g. from the guy who should be selling out there. If we had systems that could pull that insight together, that would definitely add value. The other issue knows what you want from each process. The forecast should be telling us what the changes are in the market, and have nothing to do with measurements. I should not be asked why I deviating from my commitment. I think you know, your issue around behaviour, I think there should be significant penalties for deviations either way having said that though, we should look at t=what the market is doing for us to alter our strategies accordingly. ”*

The interviewee is the CFO of the division. She sits at the helm of the organisation which has multiple businesses beneath with different strategies. Her focus from what I could gather is on the strategic goals which she refers to as Aspirational targeting. Differences in management levels will be discussed in chapter 6, between the strategic setting officials and people who have to get the “numbers”, the business executives who are held accountable for bringing the business on-board. There is a dichotomy between the strategic team

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*



managing the investor relations by looking what is possible and the internal team in managing what is realistic based on their deeply engraved views from what they did in the past.

The data has come to a point where there are no new insights gained however rehash of what other executives have said in different words. Data interpretation in chapter will highlight all issues uncovered in this research process.

**The above data is summarised below along each research question:**

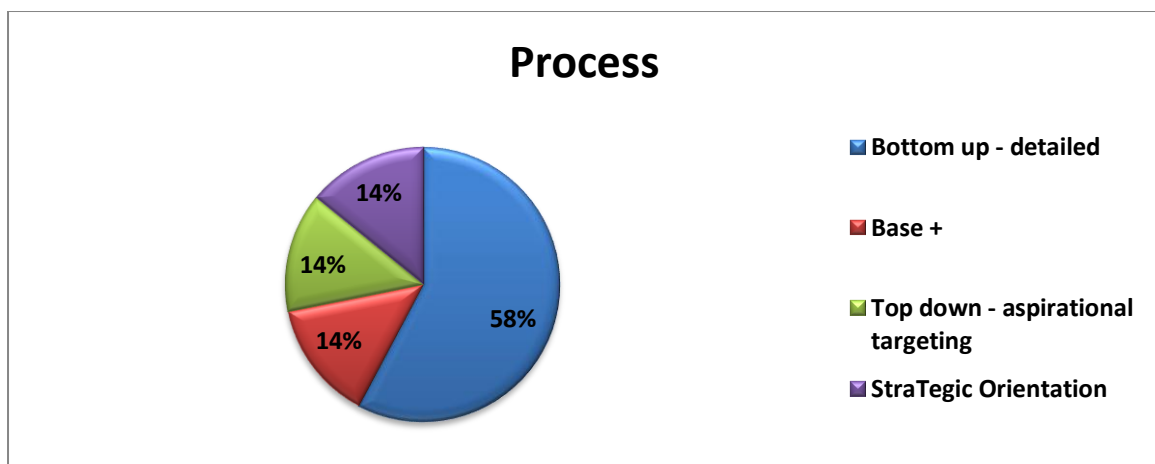
**5.1 Do managers follow the same budget processes as their international counter parts?**

Figure 13a

The local managers interviewed follow the same process as their international counterparts.

The executives interviewed follow a two pronged approach: the first approach is the target setting approach, setting aspirational targets which are externally focused.

The second approach is looking within via detailed budgets to see what they can achieve through business as usual and close the gap through strategic initiatives.



**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Figure 13b

The following reasons were provided as to why budgets are being done:

Executives mostly budget for planning reasons.

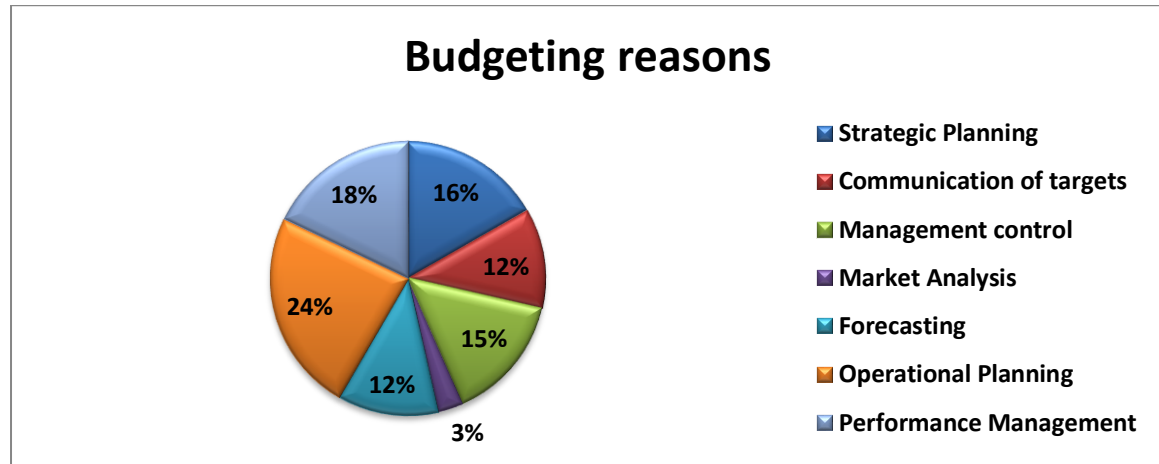


Figure 14

**Do South African managers face similar challenges to their international counterparts?**

The executives interviewed advised that still had a problem with silo mentality across the business. They agreed that they could achieve more if they worked together. Finance executives mentioned that the incentives drive behaviour; they viewed themselves as the independent body that reduces high levels of short term view. Only 1 division had financial managers reporting into the business executive, all other finance managers had a dotted line reporting to the business, whilst they had a solid line reporting to the most senior finance executive within the organisation.

Mis-alignment in strategic orientation was a major concern for the executives. This created situation whereby the financial of the divisions are not aligned to the overall organisational strategy. Leadership was also viewed as a challenge; this was a sensitive issue which

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

included some direct quotations such as the following: “They don’t know what they want”. An issue of placing “transformation” candidates in senior leadership positions was raised, stating that experience cannot be bought. This is unique to the South African environment and not covered within the international literature.

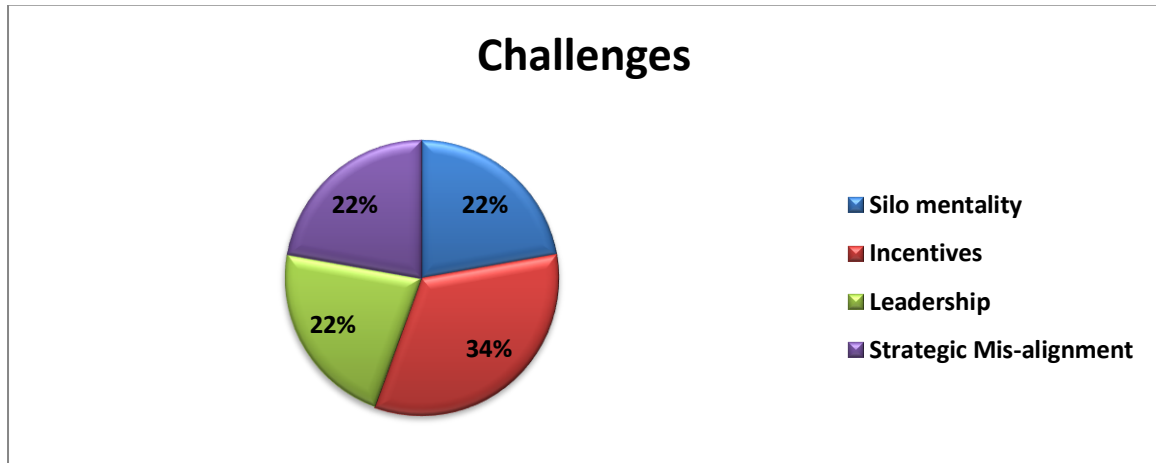


Figure 15

3.2 Research Question 2

**Do managers believe their counterparts are playing budget game?**

Most of the executives were hesitant to answer this question. What was interesting to note is that they do not think their staff engage in budget games per se', but think their colleagues at a peer level are playing budget games.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

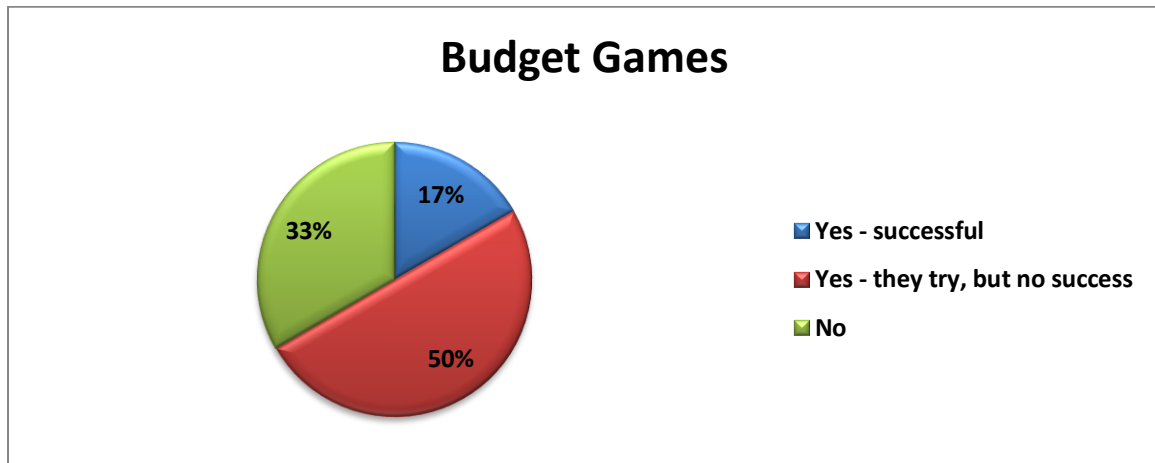


Figure 16

3.3 Research Question 3

**What do managers perceive to be the major cause of the budget games?**

Some executives requested that some of the conversation not to be recorded on tape. The themes that came through were related to Leadership problems, incentives, lack of experience from managers, lack of adequate systems to process information, weaknesses in budgeting processes, and use of budgets as a performance management tool.

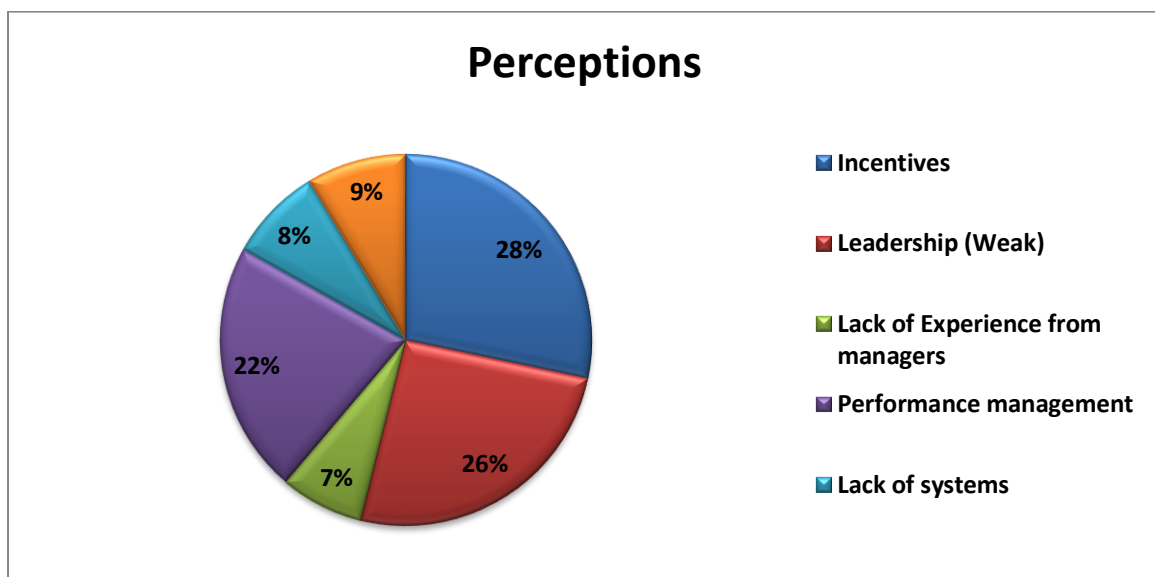


Figure 17

3.4 Research Question 4

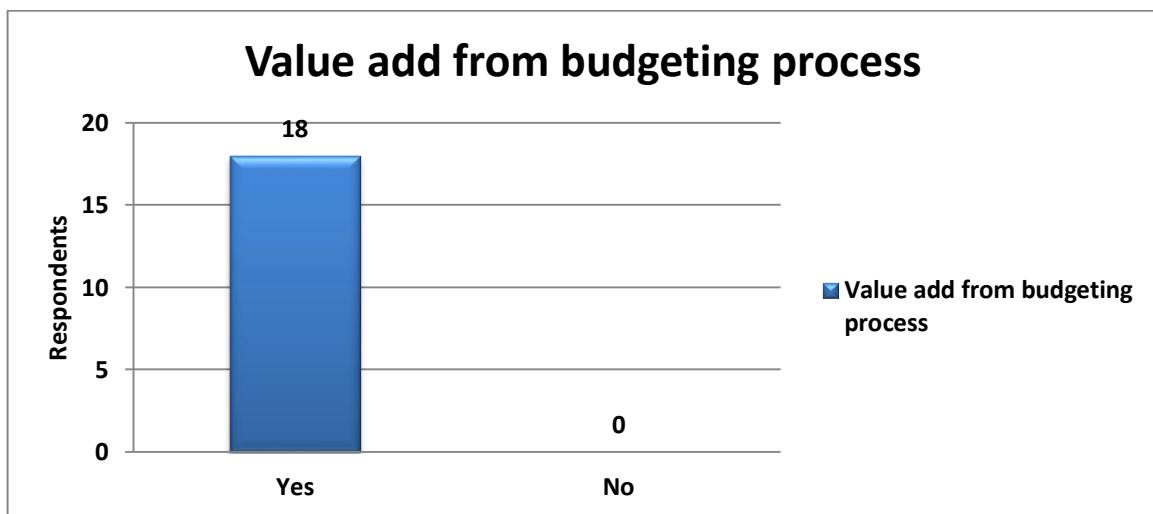
**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*



**Do the managers believe that their budgeting process adds value to the organisation?**

Senior executives whom are not involved with the day to day running of the different businesses seemed to find greater value in the process as they said it afforded them an opportunity to deep dive the detail that would not easily be picked up on a monthly reporting document or power point presentations. They valued the discussions, especially when interrogating the numbers.



**Do the managers believe that their budget “games” behaviours add value to the organisation?**

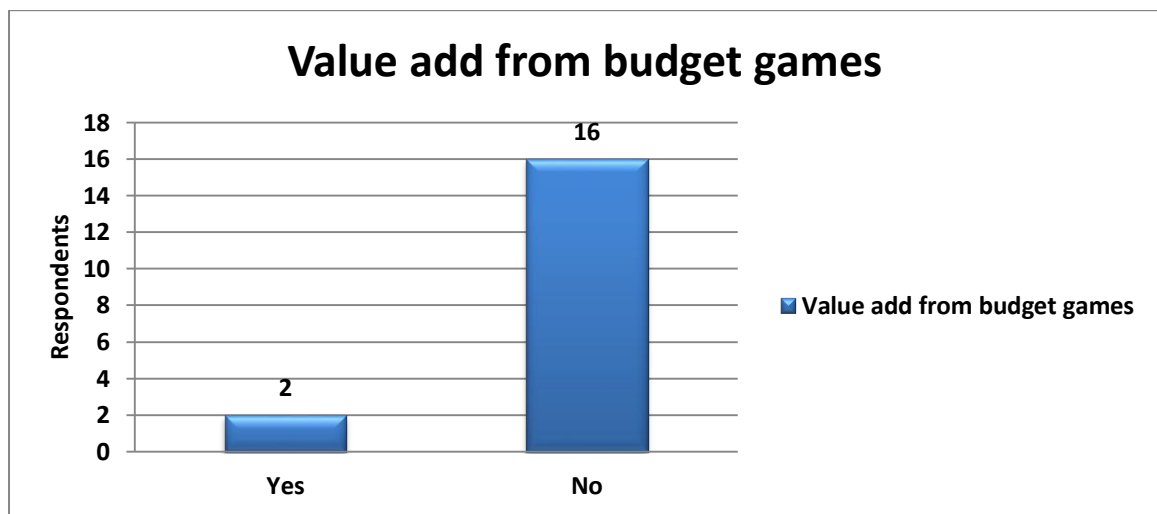
2 executives mentioned that they prefer for someone to low ball, to give them room to plan as opposed to someone high balling given them a high sense of comfort whilst they might not achieve the promised numbers. The executive mentioned that he witnessed such a case, where they missed their financial targets as they realised heavily on an executive who had high-balled. He deems the budget iterations process valuable.

Majority of the executives deemed low balling to be unethical, time wasting and value destroying. They advised that the time spent on getting numbers where they should have been in the first place to be a waste of valuable resources. The researcher was invited to one meeting whereby there was such an incident, whereby the executive presented 3 year

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

plan numbers that were not in line with their current run rate. The current run rate was showing growth of over 10% cumulative per annum, and the executive presented 4% growth attributing it to “being prudent”. The discussions took well over 1 hour 30 minutes, and there was no resolution to the discussion. It was decided that the finance executive had to go and re-do his numbers and re-presents them in a week’s time as they had run out of time.



## **CHAPTER 6: DISCUSSION OF RESULTS**

### **6.1 INTRODUCTION**

This chapter is aimed at reviewing the data presented in chapter 5 in line with literature discovered in chapter 2. The data presented gave evidence to new thinking around the problems relating to budgets. It is without doubt that there is great merit in thinking of solutions to the budget problems; however it would be a futile exercise to do so without conducting an in-depth analysis of the current problems within the relevant context.

As stated in chapter 1, the point of departure in this research is of understanding that the budgets are still deemed to be of value within organisations as such problem is in the improving of the budget system, but before we can fix, we need to understand the problem in detail and test whether the local environment is similar to international environment as most literature and research has been done in the UK, US and Canada. The aim of this research is to delve deeper into one of the aspects associated with budgeting problems which is “budget gaming”. The research entailed interviewing South African managers within the banking arena to understand their perception of the problems through exploratory interviews.

Given the premise that most research is done overseas, especially in the US and UK; Research question 1 was aimed at understanding the local context.

#### **6.2.1 RESEARCH QUESTION 1**

Do South African managers face similar challenges as their international counterparts? Do managers follow the same budget processes as their international counter parts? ?

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- *The research question above will seek to validate the international literature reviewed against the backdrop of the South African context. Major literature review is based on the international companies.*

Hope and Fraser (2003) have raised the debate to move totally away from budgets as discussed in their paper “who needs budgets”. They argue that from a cost benefit analysis point of view, the costs outweigh the benefits: some of the downsides mentioned in their paper are as follows:

1. Time Consuming – Budgeting takes a lot of time. Average time needed for budgeting lies between two and four months according to the authors
2. Costly – Despite developments of high quality and fast computer networks, the process of budgeting still remains expensive.
3. Useless – After visiting several companies, it appeared that many companies perceived the result of budgeting differently. Budget gave some companies more control, while in other companies budgeting was perceived as being unimportant and not meeting any needs.
4. Bureaucratic – The continuous pressure on prices of goods and services asks for decreases in structural costs and in bureaucracy.
5. Frequency – Initial changes in the competitive environment resulted in budgeting more often in a year, but its only result is a rising workload that is especially high in re-organisations and M&As.
6. Changing environment – Budgeting has been successful in more stable environments, but it is no longer efficient in the changing competitive environment.

Whilst they raise a compelling argument and a move away from budgets, there is no mention of behaviours experienced during budgets such as budget gaming, and further research was done by Libby and Lindsay in 2010; it entailed views of over 558 managers in both Canada and the US. This research done confirmed that managers still find value in the budgeting

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

process and deemed some of the arguments from Hope and Fraser (2003) to be rather exaggerations. 61% of companies surveyed aimed at improving their budgeting systems. Their thinking had been confirmed before by Dugdale and Lyne (2006) when they conducted interviews at 40 companies. Dugdale and Lyne's research concluded that budgets are deemed to be of great value within companies, and managers were looking at solutions to improve budgets versus discarding them. This leads to the reasons and value of this research in contributing to finding a solution to the problems by interviewing South African managers at a local bank.

The managers interviewed shared some of the concerns raised;

Time Consuming – the managers interviewed agreed that to a certain degree, the budgeting process is lengthy and takes time; however there were managers who said that it was sufficient time that the budget took. The one thing that came out was that the managers did not want to take the risk of fast tracking the process against the backdrop of mis-alignment. In most cases, the budgeting process was seen as more of a “discussion” period around what direction the business is taking and what the strategy is. This process entailed on-going discussions to ensure the correct trade off were done. However this view was only shared amongst highly ranking officials who were formulating strategy. The operational manager interviewed had a different take on this and mentioned that his time to execute is being reduced by long meetings with the finance community doing budgets. What became apparent in this process is the operational thinking versus strategic things, efficiency versus effectiveness. The operational manager was more focused on efficiency whilst the higher ranking officials are more focused on effectiveness. Are we doing the right things?

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Finance managers viewed time from a consolidations point of view that once the ‘discussions’ were done, they had to translate those ‘discussions’ into numbers, depending on the size of the business unit, the process at times became cumbersome.

Costly – The issue around cost was not of concern to the South African managers. When I asked a question on the number of financial officers doing detailed budgets and analysing all accounts in detail, the answer was “What is more important, getting the numbers right and creating shareholder wealth or cutting costs and getting things wrong”. It seemed both the financial and non-financial managers were supportive of the current situation whereby there are relatively many junior financial officers doing budgets. As the arguments that I had raised what that these resources could have been allocated to the front line where the business makes money.

Useless – None of the managers felt it was useless. Non-financial managers found this process to be of great value to them as it provided them with the opportunity to learn more about financials. For instance, some admitted that before they started on the job, they did not know the ‘budgeting’ jargon used in the business, however through going through the process they could learn more about the process and be familiar with the jargon. Financial managers often prepared complicated reports as part of their budget, managers that were involved from the start of the process were able to follow and talk through the budgets.

Bureaucratic – one executive mentioned that bureaucracy was a function of the size of the organisation. How does one manage a +19,000 staff members business without having to have control over the business unit through some kind of mechanism.e.g? Budgets, approvals and sign off processes.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Frequency – The frequency of budgeting was viewed in the positive light by managers. They understood that fixing budgets would only result in slow responses to the market. The executives outlined the process as follows:

Version 1 called OBUD for Original budget was a strategic planning process. The following versions were called forecasts which looked at the changes in the market place and entailed high-level adjustments to some of the assumptions that were used to formulate the original budget. For instance, the interest rate changes mattered a lot to the business units, and it was not easy to predict a year earlier what the interest rates would be. They would rely on the internal economist to provide the forecast; these types of changes would be factored in the forecasts done every quarter.

On the other hand, the operational and financial managers associated this process with long hours of work. As much as the idea was to adjust high-level numbers, most of the financial managers would redo the budgets in detail to get a sense of comfort. What became apparent is that the incorrect implementation or execution of forecasts resulted in more time to do budgets.

Changing environment – Literature as mentioned in chapter 2 states that budgeting has been successful in more stable environments, but it is no longer efficient in the changing competitive environment.

The view from the managers was that whilst the above sounds correct theoretically, they were not in agreement with the statement. They confirmed that the structural approach to strategic conversation and allocation of resources was quite critical and was facilitated through a budget process. At the end of the day, the business decisions had to make good economics, and that would have been derived through ensuring that everyone agrees with putting those strategies into the budget. The overall direction of the business was set through the budgeting process. Executive management was more concerned with what goes

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

out to the investment communities, they were eager to have as many versions of forecasts as possible to be able to make the correct statements and decisions.

Data tables presented in chapter 5 reflect that some of the problems encountered within the South African context are similar to those of encountered in USA and UK. For instance

### **6.2.2 RESEARCH QUESTION 2**

Do managers believe their counterparts are playing budget game?

- *The research question above will seek to assess the level of awareness in budget gaming in their organisation. It is intended to assess whether the managers acknowledge that there are budget games within their organisation (as literature reviewed stated that budget games are prevalent).*

Whilst by and large no direct responses were as give into this question, when the question was posed differently it became apparent that there are budget games within the departments. This is in line with the international setting, as discussed in the article by Steele and Albright in 2004. Steele and Albright classified five different “players’ in budget gaming:

- The Sandbagger: *“there is no way we can grow by 10%”*
- The Magician: *“there really are no weak spots in our business now”*
- The Lone agent: *“Yes, but that principle does not apply in our business”*
- The Visionary: *“I can’t say exactly when, but is going to be big....very big”*
- The Hostage Taker: *“If we don’t invest big right now, we will be left on the side-line”*

None of the managers categorised their colleagues into these buckets however from the interviews I could get a sense of who belonged where and why.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- The Sandbagger: “there is no way we can grow by 10%”

The sand baggers were prevalent across the interviews. In-line with international research, many managers aim lower than what they can achieve as they deem the budgets as a fixed performance contract between them and the organisation. They take it as if their jobs and status is at risk; they rather under promise and over deliver. When asking why people do that, the answer was that the relationship between the manager and the staff has to be a transparent, honest relationship for both parties to remove “information asymmetry” to mitigate sand bagging. An example in the current year was when an executive was asked to reduce their divisional budget by R1m and they dug their heels and mentioned how tight their budget was in January 2012 and by August 2012, they had an R20m favourable variance against their budget. The R20m was going to be strategically allocated to other small but high potential projects, which were postponed to the following financial year. From a budgeting perspective, the sand bagger who was worried of overshooting on their cost budget has had a negative impact on the company earnings as a high potential project was put on hold for a year.

- The Magician: “there really are no weak spots in our business now”

The magicians are the managers that are able to redirect conversations and control the direction of discussions. For instance, some managers are able to “get away” from tough questions by moving away from what is being asked. One of the business unit is starting to become obsolete in banking given current trends however the manager responsible for the division does not answer nor deny the statements, what they do is shy away from the tough discussion of what needs to be done with the department, they proposed further investment into the business to increase sales. At business reviews, managers’s subordinates are often confused about how they should build the management packs: the ethical dilemma” do we show the level up management what they should know or what

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

we want them to know”. More often than not, the management pack builders (executive assistants, business operations managers, etc.) end up building management packs that boasts on how they are doing well, exaggerating small incremental improvements, whilst any “negative” information is disseminated within the pack building process.

- The Lone agent: “Yes, but that principle does not apply in our business”

Given the fact that many of the business units with the banking group operates autonomously from other units, it is easy for managers not to share information across the businesses of what their businesses are up to, and what the trends are, etc. some managers embark on budget gaming such as saying that whatever is proposed will not work in their departments. For instance a budget cut was being proposed across the businesses, the first three executives agreed to it given their support for the global business goals and support of the strategy. The forth executive declined the cut, stating the headcount reduction or freeze will not work in their department. This resulted in restarting the process as the previous executives who had agreed, changed their decisions and states that if he does not take the cut like everybody else, they will also not take the cut. The lone agents were also mentioned within the interview process. They seem to support ideas towards other business units and not their business unit, for instance, they would advocate for increased targets for other business unit however when it comes to their departments, they become adamant that the market conditions are tough and will not realise the growth being suggested to them.

- The Visionary: “I can’t say exactly when, but is going to be big....very big”

Only two visionaries emerged from the interviews; these are managers that often promise long term benefits form the projects they are punting money for. They often appeal to the executive teams through emotive power presentation showing long term strategic benefits

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

of what they are trying to achieve. These visionaries are often running loss making division and not wanting to face reality. For instance, one of the divisional executives at the bank looking after the youth market was running at huge losses. His defence was that one day the students would work and they would generate the necessary income to compensate for the earlier losses incurred. Whilst the plan sounds logically true, what was realised at a later stage was the level of dormant accounts and low retention of the customers. Visionaries are often caught in their world of seeing things in the future and they then forgot the discipline of managing today for the future.

- The Hostage Taker: *“If we don’t invest big right now, we will be left on the side-line”*

Many of the executives interviewed, about 70% stated that they are not happy with the level of discussions around trade-offs. Given the fact that capital funding is limited, executives needs to make decisions on what they do more of and what they do less off. However in the decision making process, some individuals often comes up with hypothetical propositions. The bank where interviews were held has a scenario whereby a senior executive held them at ransom within a budget discussion and mentioned that if they do not buy up an IT start up, they will be left behind. The bank redirected a lot of its capital funding to purchasing of the IT firm. In that period it lost tremendous market share.

### **6.3.3 RESEARCH QUESTION 3**

What do managers perceive to be the major cause of the budget games?

- *The research question per above will seek to uncover what the managers perception is as to why their colleagues engage in budget games.*

This question is by far the heart of this research. A lot of focus was placed onto this question however disappointingly, the researcher is of the view that the information and data provided

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

is not of what he expected. He believes that given that the interviews were held in the office, there might be a limiting factor as opposed if the interviews were held at an informal location like a coffee shop or the interviewee's home.

The first answer received on this is that the financial managers of the business units referred to as Chief Financial Officers, own the budgeting process. These managers regard the budget as a promise to shareholders, thus it is a financial commitment. Now as soon as people who should be tied to the commitment realises this, typically in the first year of them being appointed, they start to shy away from committing to numbers. They start budget gaming such as sand bagging or low balling. This creates a lot of the "sand bagging" in the business.

Financial managers often report monthly on those commitments, for instance a business head had committed to reduce 100 headcount in the financial year. The 100 headcount had a financial benefit to the organisation of Rx million. However given the nature of the exercise, reduction in headcount, delays in reduction were encountered, which reduced the financial benefit. The business head was "forced" to cut in other areas to compensate for the shortfall on the required amount. He has learnt from his past commitment and given the opportunity to redo the budget again, he would rather commit 75 headcount instead of 100. In summary, the power of finance running and owning budgets and regarding those as fixed commitments establishes a culture whereby business managers are no longer eager to commit on numbers.

The second theme that arose was the trust issue. In some instances, senior managers do not agree with the appointment made for a position they report into. Sometimes the person appointed was their colleague, at times it is an employment equity appointment. There are several of these situations; however they result in low levels of trust within the manager-subordinate relationship. In those setting, where the relationships are purely mechanical, managers often require hard data for measurements of their staff performance, and these are obtained through fixed performance contracts. These fixed performance contracts are a result of endless debates, disagreements, compromise, given or take, etc. In many ways are off the mark and not in relation to the external competitive environment but rather internally focused. These fixed performance contracts have "bonus" implications. *"When people feel that they are at risk, they will do funny things, even executives"*. In summary, the use of

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

budgets as fixed performance contracts arising from low trust levels relationships are the major cause of budget gaming.

The third theme which was supported by half of the sample size was the size of the organisation. *“With size comes bureaucracy”*

### **6.3.4 RESEARCH QUESTION 4**

Do the managers believe that their budget “games” behaviours add value to the organisation? Is there value in the budget process?

- *The research question per above will seek to obtain the mental model of the manager’s gaming perceptions.*

Executives believes that the budgeting process is valuable, this in line with the surveys done by Duglane and Lyne (2006), Libby and Lindsay (2010) within the USA and UK contexts. However the budget gaming is deemed to not any value in line with the work done by Steele and Albright (2004). Only one finance executive mentioned that budget games were valuable, especially high balling, he said that the person who high balls gives him time to fully prepare than a person who low balls.

It appeared from the dataset that most managers mentioned the word “Maturity” as few times. And from the interviews, many were reluctant to talk about the issue of perceiving their peers to be low balling or high balling.

## CHAPTER 7: SUMMARY, CONCLUSION AND RECOMMENDED FUTURE RESEARCH

### 7.1 INTRODUCTION

The following quotation derived from Jack Welch's book:

*I believe that budgeting provides managers with a wonderful opportunity to rejuvenate their organizations. There is no other managerial process I am aware of that translates qualitative mission statements and corporate strategies into action plans, links the short term with the long term, brings together managers from different hierarchical levels and from different functional areas, and at the same time provides continuity by the sheer regularity of the process (S. Umaphy, Current Budgeting Practices in US Industry, 1987, xxii). Not to beat around the bush, but the budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organization. It hides opportunity and stunts growth. It brings out the most unproductive behaviours in an organization, from sandbagging to settling for mediocrity. In fact, when most companies win, it is in spite of their budgets, not because of them (Jack Welch, Winning, 2005, 189).*

### 7.2 SUMMARY

Literature was reviewed, and it was revealed that there is a gap in literature within the South African context. The researcher undertook eighteen face-to-face interviews with the senior management within a local bank. From the study it was confirmed that the budgets and the budgeting processes are integral to running of the business. The executives aligned strategic setting with budgets; however they continue to experience problems with low balling. The research revealed that the issue around low balling has to do with the size of the organisation (bureaucracy) and the trust levels between them and their managers. Within the South African context, as per the research conducted, Finance executives exude power

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

within organisations. Finance executives deemed budgets to be commitments cast in stone from the business executives. The finance professionals held the business executives accountable via scorecard to deliver against their promises. Additionally there was a dilemma between the executives in the centre and the executives running business units. The executives in the centre (CEO, CFO) had an expectation to the market to manage the investor relations. Their aspirations is to high ball whilst the senior executives running the business deemed it necessary to go in with low budgets at first iterations, as they had a view that they will be asked to do more. Managers who did bottom up budgets seemed to be the ones likely to come up with low budgets whilst the ones that do high-level budgets based on “aspirational target setting” seemed to align their budgets with their business aspirations given the external environment.

### **7.3 FINDINGS AND RECOMMENDATIONS**

Budgets remain indispensable as a management practice; however the same problems reported decades ago are still prevalent in today’s times. Managers continue to play budget games. From the research conducted, it is notable that the culture of using budgets for purposes of scorecards and measurement is rampant in the business. Further the association of budgets achievements with performance scorecards, rewards and incentives continues to be a major factor in budget gaming.

The contribution of this paper is that the manager – subordinate relationship plays a critical role in determining the level of budget gaming that happens within an organisation, Managers should aim to instil a culture of honesty, transparency and trust amongst them and their staff, and amongst their staff. Peer review of budgets creates a sense of trust amongst staff as they interrogate each other’s budgets and collective decisions can be made with

**MBA Research Paper:**

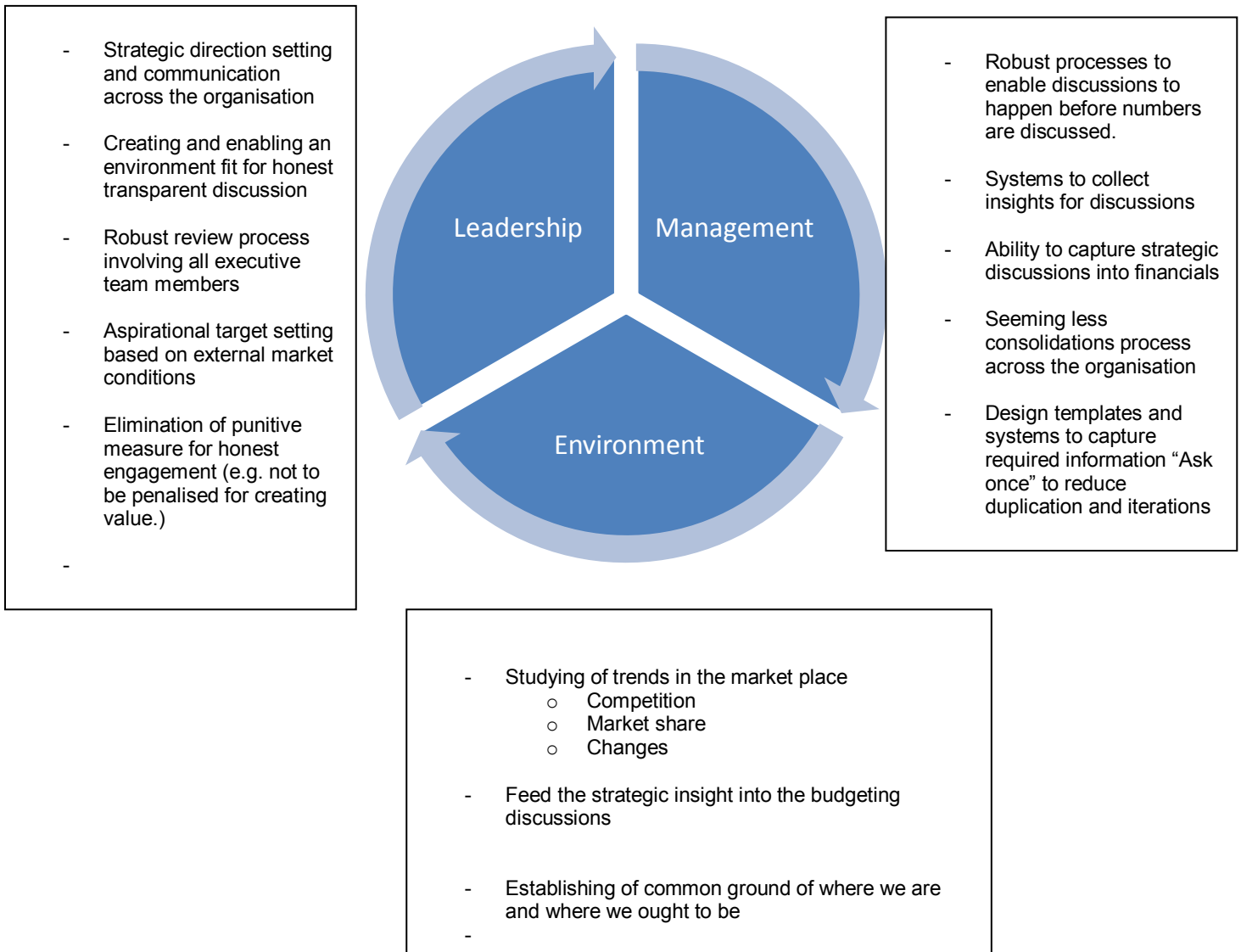
*Reasons why managers play budget games and their perception of budgets at a local bank*



regards to scarce resources as opposed to individual sign offs which tends to breed favouritism and bad vibes within the business.

**7.4 FUTURE RESEARCH**

This paper entailed discussions and in-depth interviews with managers at a local bank in South Africa. The researcher recommends expanding the sample size into wider management levels, to include junior managers and middle managers and also include other industries to gain further insights into the South African context. The researcher further recommends building onto the proposed models depicted below:



## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

- **Leadership process to be robust**
- ***“Enabling a viable environment to have honest conversations”***
  - Strategic direction (Have we set common ground on where we need to get to as a business/organisation)
  - Aspirational targeting (Have we understood the strategic landscape and know where we fit in within the competitive space?)
  - Debates and Discussions (Have we set the correct tone and setting for honest robust and courageous discussions)
  - Change management (Have we equipped our managers to understand that the aspirational targets and strategic direction should be what are budgets reflect – and should not be punitive )
- **Management process to be robust**
- ***“Ability to build the budget based on strategic planning”***
  - Frameworks (Deadlines and Timeliness)
  - Data analysis (what has been achieved)
  - Data analysis (what can be achieved with current resources)
  - Systems (ERP) (how do we collate the information across the different business units)
  - Easy to populate Templates (do we have adequate information from returns)

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

### **References**

- Andersen, A., Lau, L., David, D., Nielsen, L., and Holbøll, W. (2010) Late Budgets. *EPRU* Paper No. 2010-04. doi.org/10.2139/ssrn.1599437
- Andrews, KR. (1987). *The Concept of Corporate Strategy*, custom edition. United States of America: McGraw-Hill
- Ahmad, NNN. Sulaiman, M. and Alwi, NM. (2003) Are budgets useful? A survey of Malaysian companies. *Managerial Auditing Journal*, 18, 9, pp. 717 - 724.
- Barrett, R. and Jelly RG. (2007) *The Re-forecasting Report, 2006 Survey of Current Practices in the UK*. Business Objects
- Bear-Lehman, J (2002) A word about qualitative research, *Journal of Hand Therapy*. Vol. 15, Issue 1, pp. 85-86,
- Better Budgeting Forum. London (2004) *Debating the traditional role of budgeting in organisations*. Starovic, D. and Jackson, C. (Ed). The Chartered Institute of Management Accountants (CIMA), The Institute of Chartered Accountants in England and Wales (ICAEW).
- Biles, J., Brehm, K., Enrico, A., Kiendl, C., Morgan, E., Teachout, A., and Vasquez, K., (2007), Globalization of Food Retailing and Transformation of Supply Networks: Consequences for Small-scale Agricultural Producers in Southeastern Mexico. *Journal of Latin American Geography*, Vol. 6, No. 2, GLOBALIZATION: LINKING SCALES OF ANALYSIS pp. 55-75
- Blumentritt, T. (2006) "Integrating strategic management and budgeting", *Journal of Business Strategy*, Vol. 27 (6), pp.73 - 79
- Bourne, M. (2004) Driving value through strategic planning and budgeting. In: Starovic, D. and Jackson, C. (Ed). *Better Budgeting Forum*. London (2004). The Chartered Institute of Management Accountants (CIMA), the Institute of Chartered Accountants in England and Wales (ICAEW).
- Byrne, S. and Damon, F. (2008) To participate or not to participate? Voice and explanation effects on performance in a multi-period budget setting. *British Accounting Review*, Sep2008, Vol. 40, Issue 3, pp. 207 - 227.
- Centage/IOMA. (2007). *Centage/IOMA Budgeting Survey: Benchmarks & Issues*. [http://forms.centage.com/pdf/Centage\\_IOMA\\_Budgeting\\_Survey.pdf](http://forms.centage.com/pdf/Centage_IOMA_Budgeting_Survey.pdf).
- Checkland, P. (1994) *Systems Theory and Management Thinking*, *American Behavioural Scientist*, Vol38 no. 1 75-91
- Chong, VK. and Chong, KM. (2002) Budget goal commitment and informational effects of budget participation on performance: a structural equation modelling approach. *Behavioural Research in Accounting*, Volume 14, pp. 65 - 86.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Chong, VK. and Johnson, DM. (2007) Testing a model of the antecedents and consequences of budgetary participation on job performance. *Accounting and Business Research*, Vol. 37, No.1, pp. 3 - 19.

Cokins, G. (2008) Repairing the budgeting process: the budgeting process often gets in the way of successful strategy achievement. *Financial Executive*, December 2008, pp. 45 - 48.  
Davis, S., DeZoort, FT. And Kopp, LS. (2006) The effect of obedience pressure and perceived responsibility on management accountants creation of budgetary slack. *Behavioural Research in Accounting*, Volume 18, pp. 19 - 35.

Czaja, R. & Blair, J. (1996) *Designing surveys: a guide to decision and procedure*. Thousand Oaks, CA: Pine Forge Press  
Davis, J. & Mabin, V. (2009), *Theory of Constraints. Research Issues*, Graduate School of Business, RMIT University

Daft, R. L., & Lengel, R. H. (1983). Information richness. A new approach to managerial behavior and organization design (No. TR-ONR-DG-02). TEXAS A AND M UNIV COLLEGE STATION COLL OF BUSINESS ADMINISTRATION.

Davison, R. (2011). *The Fourth Economy: Inventing Western Civilization*. Ron Davison.

Drury, C. (2009). *Management Accounting for Business, 4<sup>th</sup> edition*. United Kingdom: Cengage Learning.

Ezzamel, M., & Watson, R. (2005). Boards of directors and the role of non-executive directors in the governance of corporations. *Corporate governance: Accountability, enterprise and international comparisons*, 97-115.

Fama, E (1980) Agency Problems and the Theory of the Firm *Journal of Political Economy*, Vol. 88, No. 2 (Apr., 1980), pp. 288-307  
Published by: The University of Chicago Press  
Article Stable URL: <http://0-www.jstor.org.innopac.up.ac.za/stable/1837292>

Fisher, JG., Frederickson, JR. and Pfeffer, SA. (2000) Budgeting: an Experimental Investigation of the effects of Negotiation. *Accounting review*, vol 75, issue 1, pp. 93 - 125.

Fisher, JG., Maines, LA., Pfeffer, SA. And Sprinkle, GB. (2002) Using budgets for performance evaluation: effects of resource allocation and horizontal information asymmetry on budget proposals, budget slack and performance. *The Accounting Review*, vol 77, no.4, pp. 847 - 865.

Gary, M, Kunc, M., Morecroft, J. and Rockart, F. (2008), System dynamics and strategy. *Syst. Dyn. Rev.*, 24: 407–429. doi: 10.1002/sdr.402

Giacomino, D., Bellovary, J. & Akers, M. (2006) The Ethics Of Managing Short-Term Earnings: Business Managers And Business Students Rate Earnings Management Practices – Implications For Academia. *Journal of College Teaching & Learning*, Vol 3 (7): P1-14

Goldratt, E., Cox, Jeff. (1984) *The goal: Excellence in manufacturing*: North River Press, Croton-on-Hudson

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Goldratt, E. (2008) *The Choice*, North River Press, Croton-on-Hudson

Garnes, S., & Grønhaug, K. (2011). The Role of Boards of Directors in Tourist Organizations. *Scandinavian Journal of Hospitality and Tourism*, 11(2), 115-134

Hansen, SC., Otley, DT. & Van der Stede, WA. (2003) Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*, 2003. Volume 15, pp. 95 - 116.

Hansen, SC. & Van der Stede, WA. (2004) Multiple facets of budgeting: an exploratory analysis. *Management Accounting Research*, Dec 2004. Vol. 15, Issue 4; p. 415.

Hope, J. and Fraser, R. (2003a) Who needs budgets? *Harvard Business Review*, Feb 2003, Vol. 81, Issue 2, pp.108 - 115.

Hope, J. and Fraser, R. (2003b) New ways of setting rewards: the beyond budgeting model. *California Management Review*, Summer 2003, Vol. 45, Issue 4, pp.104 - 119.

Horngren, M. Datar, F. (2006) *C.T. Cost accounting: A managerial emphasis*: Pearson Education Inc, New Jersey

Internet sources:

Blog: Simon, P (2009) : <http://community.cimaglobal.com/blogs/peter-simonss-blog/budget-games>

Accessed 03 August 2012

Jensen, MC. (2003) Paying people to lie: the truth about the budgeting process. *European Financial Management*, Vol. 9, No 3, pp. 379 - 406.

Jones, L. & McCaffery, J. (2008) *Budgeting, Financial Management, and Acquisition Reform in the U.S*

Kaplan, RS. and Norton, DP. (2004) *Strategy Maps: Converting intangible assets into tangible outcomes*. USA: Harvard Business School.

Kaplan, RS. and Norton, DP. (2007, reprint of original 1996 article) Using the balanced scorecard as a strategic management system. *Harvard Business Review*. July - August 2007, pp. 150 - 161.

Keogh, A. (2008) Blindfold budgeting It's time to call a halt! *Accountancy Ireland*, April 2008, Vol 40, pp. 36 - 37.

Kober, R., Ng, J., Paul, B. (2007) The interrelationship between management control mechanisms and strategy. *Management Accounting Research*. Vol18 (4): Pages 425–452

Leedy, PD. and Ormrod, JE. (2004) *Practical Research: Planning and Design*, eighth edition. United States of America: Pearson Education.

Libby, T. (2001) Referent cognitions and budgetary fairness: a research note. *Journal of Management Accounting Research*, Volume 13, pp. 91 - 105.

## **MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Libby, T. and Lindsay, RM. (2007) Beyond budgeting or better budgeting. *Strategic Finance*, August 2007, pp. 47 - 51.

Libby, T. & Lindsay, R. (2007) Beyond Budgeting or Better Budgeting? Just how important and useful is budgeting? *INSTITUTE OF MANAGEMENT ACCOUNTANTS*, Vol 89 (2): pp. 46-51

Likierman, A. (2004). Worth your weight in gold? *Financial Management*, December / January 2004/2005, pp. 22 - 23.

Likierman, A. (2006) Measuring the success of annual budgeting. *Finance & Management*, September 2006, issue 136.

Lumby, S. Jones, C (2003) *Corporate Finance: Theory and Practice*. London. Thompson Learning

Martins, J. Loubster, M. van Wyk, H. (2002) *Marketing Research: A South Africa Approach*. Unisa Press: Pretoria

Matsa, D. (2011) Competition and Product Quality in the Supermarket Industry\* *The Quarterly Journal of Economics* (2011) 126 (3): 1539-1591. doi: 10.1093/qje/qjr031

McGahan, A. M. (2000). How industries evolve. *Business Strategy Review*, 11(3), 1-16.

McGivern, Y. (2003) *The practice of market and social research*. London: FT Prentice Hall.

McVay, G. & Cooke, D. (2006) Beyond budgeting in an IDS: the Park Nicollet experience. Vol 60(10):pp100-2, 104, 106

Montgomery, P. (2002) Effective rolling forecasts. *Strategic Finance*, Feb2002, Vol. 83, Issue 8, pp. 41 - 44

National Treasury Policy Document (2011) *A safer financial sector to serve South Africa better*: Republic of South Africa. Accessed 21 April 2011

Neumann, BR. (2001) Streamline Budgeting in the new Millennium, *Strategic Finance*, December 2001, Vol. 83, Issue 6, pp. 44 - 49.

Neuendorf (2002)

Quinding, C. (2006) The cost-benefit of regulation in South African banking: Gordon Institute of Business Science, Illovo.

Saludadez, J., Garcia, P. (2001) Seeing Our Quantitative Counterparts: Construction of Qualitative Research in a Roundtable Discussion. *Qualitative Social Research*, North America, Vol 2(1)  
Retrieved <http://www.qualitativeresearch.net/index.php/fqs/article/view/973/2122>>

Saunders, M. & Lewis, P. (2012) *Doing Research in Business and Management: An Essential Guide to Planning Your Project*. England: Financial Times/Prentice Hall

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

Oak, S. & Schmidgall, R. (2009) "Have budgetary controls in the US club industry changed from the mid-1980s to the twenty-first century?" *International Journal of Contemporary Hospitality Management*, Vol. 21 (4): pp.411 – 421

Siedel, (1998)

Steele, R. Albright, C. (2004) Games managers play at budget time, *MIT Sloan Management Review*. Vol: 45, (3): pp: 81-84. ISSN: 15329194

Shastri, K. & Stout, DE. (2008) Budgeting: Perspectives from the Real World. *Management Accounting Quarterly*, Fall 2008, Vol. 10, No.1, pp. 18 - 25.

Taylor, AG. and Rafai, S. (2003) Strategic budgeting: A case study and proposed framework. *Management Accounting Quarterly*, Fall 2003, Vol.5, No.1, pp. 1 - 10.

Ter Bogt, H. J. (1999). Financial and economic management in autonomized Dutch public organizations. *Financial Accountability & Management*, 15(3-4), 329-351.

The Chartered Institute of Management Accountants (CIMA) and Michael, A. (2007), *Beyond Budgeting* [Online]. Topic Gateway Series No.35, October 2007, [http://www1.cimaglobal.com/cps/rde/xbcr/SID-0AE7C4D1-CEDD38A7/live/cid\\_tg\\_beyond\\_budgeting\\_oct07.pdf](http://www1.cimaglobal.com/cps/rde/xbcr/SID-0AE7C4D1-CEDD38A7/live/cid_tg_beyond_budgeting_oct07.pdf).

The Chartered Institute of Management Accountants (CIMA) and Ross, L. (2008), *Budgeting* [Online]. Topic Gateway Series No.27, Revised March 2008, [http://www1.cimaglobal.com/cps/rde/xchg/SID-0AE7C4D1-CEDD38A7/live/root.xsl/document\\_broker.htm?filename=cig\\_tg\\_budgeting\\_mar08](http://www1.cimaglobal.com/cps/rde/xchg/SID-0AE7C4D1-CEDD38A7/live/root.xsl/document_broker.htm?filename=cig_tg_budgeting_mar08)

Theiss, EL. (1937) The beginnings of business budgeting. *Accounting Review*; Mar 1937, Vol.12 Issue 1, P43, 13p.

Thomson, JC. (2007) Anatomy of a plan, Better practices for Management Accountants. *Strategic Finance*, October 2007, pp. 21 - 28.

Wentzel, K. (2002) The influence of fairness perceptions and goal commitment on managers' performance in a budget setting. *Behavioural Research in Accounting*, Volume 14, pp. 247 - 271.

Zikmund, WG. (2003) *Business research Methods*. Ohio: South-Western, a division of Thomson Learning.

**MBA Research Paper:**

*Reasons why managers play budget games and their perception of budgets at a local bank*

**APPENDICES:**

**Informed consent letter:**

The informed consent letter is to be used for interviews.

I am conducting research on *Reasons why managers engage in budgets games and their perception of budgets*, and am trying to find out more about the perception of managers with regards to budgets and why some managers engage in budget gaming behaviours.

Our interview is expected to last about an hour, and will help us understand how business heads, managers and financial officers perceive the budgeting process, variance analysis and their behaviours and influence in the process as well as the effects in the organisation.

Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Vincent Masilo  
Viljoen  
Email: [vmasilo@gmail.com](mailto:vmasilo@gmail.com)  
Phone: 082 067 9790/ 011 295 7228

Research Supervisor Name: Philip  
Email: [philip@goldratt.co.za](mailto:philip@goldratt.co.za)  
Phone: 082 651 5977 / 011 026 6287

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_