

**CONCEPTUALISING A NEW AND CONTEMPORARY MODEL FOR
THE SUCCESSFUL IMPLEMENTATION OF "CONTINUOUS"
BUDGETING**

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BORANG TAMAT PROJEK GERAN PENYELIDIKAN

BAHAGIAN A : MAKLUMAT KETUA PROJEK	
Nama	Assoc Prof Dr Wee Shu Hui
Alamat Pusat Tanggung Jawab (PTJ)	ARI dan Fakulti Perakuanan
Tajuk Projek:	Conceptualising A New And Contemporary Model For The Successful Implementation Of "Continuous" Budgeting (40,000)
BAHAGIAN B : MAKLUMAT PROJEK PENYELIDIKAN	
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BAHAGIAN C : HASIL PENYELIDIKAN	
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Harta Intelekt (No Patent/No IP)	
Pelajar yang di latih (Nama, KP, Kod Program)	Nur Shahida Ab Fatah (Master in Accountancy)
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4. Report

4.1 Proposed Executive Summary

Budgets have been the most important management control and tool for decades. Budgets are being used to give direction to company by setting the pre-determined targets to be achieved. Company used budgeting in setting the rewards, plan actions, allocate resources, coordinate plans across the company, and then measure and control performance against the agreed plan. However, as time pass by, the management and control tools also have evolved. There has been an increasing dissatisfaction with the budgeting practices that was developed in the 1920's where things were not unpredictability like today's. In the present days, we have an environment where the competitive factor between the companies have grown. The increasing complexity in business has made the future more unpredictable. This new environment gives new challenges for a company to control their management.

Budgeting models should be able to drive the companies to be in line with the developments of today's business markets that growing to be fast moving and competitive. Aware of the rapidly growing competition, companies have evaluating their budgeting systems. From the evaluating process, there are some companies that are dissatisfied with their budgeting systems. Hence, many companies tried to improve their budgeting systems (Libby & Lindsay, 2010). Additionally, in coping the increasing complexity environment, there is new management and control tools have been developed. One example is the beyond budgeting model. Beyond budgeting is a model that suggests the abolishment of annual budgets and implements tools that are better in managing the company than traditional annual budgets.

4.2 Introduction

As the business environment become more competitive, companies need to evaluate their systems to ensure that they can stay competitive and last longer in the market. Budgeting is one of the tools that being evaluated by the management of company. From the prior studies, many have looked into the adequacy of traditional budgeting in helping the company to stay competitive (Hope & Fraser, 2000; Hanse & Van der Stede, 2003; Ekholm & Wallin, 2011). According to Neely, Bourne and Adams (2003), traditional budgeting methods are time consuming. They are adding little value since usually affected by gaming and corporate politics. Furthermore, they are preventing managers from responding quickly to changes in today's business environment where it is more competitive. The traditional performance management model which proposes centralization is less flexible to reflect today's fast moving economy (Hope & Fraser, 2000; Awio & Northcott, 2001). Many people consider that the traditional budgeting which is more focus on fixed targets and command-and-control mechanisms often lead to dysfunctional, even unethical, management behavior (Jensen, 2001; Libby & Lindsay, 2007).

To cope with unpredictable environmental challenges, some of these companies have adopted Continuous Budgeting. With continuous budgeting, the budget is used diagnostically and interactively for management control (Frow, et al., 2010). Frow's case study demonstrates that diagnostic control is achieved when the budget is continually updated to monitor performance. The monitoring of performance further enables managers to ascertain previously unforeseen problems and new opportunities. Interactive controls encourage top management to be actively involved in the decisions of their subordinate managers. This type of

control forces management discussion of new problems and opportunities and their required respond. Both diagnostic and interactive controls are emphasized in Continuous Budgeting.

4.2.1 Objectives of the Study

This study is carried out to achieve the following objectives:

1. To understand the failures of traditional budgeting.
2. To explore the relationship between budgeting and MCS, using Simons' LOC framework.
 - a. Diagnostic control systems and traditional budgeting.
 - b. Interactive control systems and beyond budgeting.

4.3 Brief Literature Review

Criticisms of traditional budgeting

Since the business activity has become more complex and dynamic, the traditional budgeting method has been subject to criticism from several front in this recent years. Neely, Bourne and Adams (2003) have listed several criticisms on the traditional budgeting. First and foremost, traditional budgeting is regarded as a poor management tool since it considered to be too static. Static is being considered as fixed. Company with a fixed annual budget is not capable to respond immediately in relation to the changing market and competitive situation that may occur during the financial year.

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