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The value-driving potential of budgeting in South African manufacturing companies

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A research proposal in partial fulfilment of the Gibs MBA degree requirements

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Abstract

Historically budgets have been seen as an indispensible control mechanism for businesses. Both the business and academic press continue to report on problems related to budgeting. This research report investigated whether or not local managers and finance practitioners believe that budgets add value to South African manufacturing companies

A gap in previous research was that investigations were limited to finance practitioners. This study investigated the experiences and views of non-financial managers in addition to those of finance professionals. In order to understand the views of both sets of managers, Qualitative research, in the form of semi-structured expert interviews was undertaken.

The findings reflect managers believe budget and planning processes add value, their reasons for what drives value in the process differs from the international literature on the subject. The processes and procedures followed locally align with global practices to a large extent. It was surprising to find that local managers do not report the same levels of problems experienced with budgets as their international counterparts. Participative budgetary practices were found to be a problem, leading to problems with budgetary alignment, efficiency and buy-in. The most surprising finding was that non-financial managers are positive about budgeting and planning processes. The key finding being that the process is used to gain information that drives their understanding of their business and this enables them to more meaningfully review and update their strategies.

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: ________________________________

Joan King (Mrs)

Date: ________________________________

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"So let's not allow ourselves to get fatigued doing good. At the right time we will harvest a good crop if we don't give up, or quit" (Galatians 6:9, the Message)

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Chapter 1 Introduction to Research Problem.

1.1 Background

In most organisations, a significant amount of time and effort is spent in preparing and updating budgets. Traditionally these formed part of the tracking and control mechanism for the business. It is not clear whether this time and effort adds value. Budget processes and new ways to budget are popular themes in the business and academic press. Articles regularly appear on the subject of problems with budgets and budgeting, highlighting that organisations continue to experience problems with budgeting. Types of problems include frequent re-forecasting, a lack of alignment to strategy, rigid target setting that fails to adjust for environmental change and the 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)

The term budgeting can be interpreted in various ways. To promote clarity, a standard definition will be used. The Chartered Institute of Management 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). The same document expands this definition 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 <u>Problem Definition</u>

Historically budgets have been seen as an indispensible control mechanism for businesses. Both the business and academic press continue to report on problems related to budgeting. This research report will investigate whether or not local managers and finance practitioners believe that budgets add value to South African manufacturing companies through assessing:

- current budget processes and practices,
- problems experienced in the budgeting process,
- reasons for budgeting, and
- management definitions of value derived from budgeting.

All of the aforementioned are influencing factors on whether or not an individual perceives budgeting to add value.

A Sabinet and Ebscohost database search was undertaken and the writer 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. Wits business School present a course for integrating strategy, budgeting and reporting because: '*Traditional planning and budgeting processes don't always work well in today's rapidly changing economy'*. (WBS, 2009). 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. The problems discussed above, the lack of research about South African experiences and the fact that a respected business school sees enough of a training need in the market to offer a business course about budget problems, support the need for local research to understand whether local managers and finance practitioners believe that budgets and budgeting add value to their businesses.

Budget problems or lack thereof are linked to the perception of value that budgeting provides to an organisation are 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.

Budgets are predominantly set using manual processes and Excel spreadsheets. These methods are time-consuming and prone to error. Budgets are set on estimates and unsupported assumptions which leads to incorrect information being presented. Budgets are often not updated for changes in market conditions which make then 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 with 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 managers who try to get easily achievable budget targets for the following year. “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 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 more fully discussed in Chapter two.

1.3 Research Purpose and Scope

Research will be conducted into management perceptions of how budgets add value in South African Manufacturing companies. Further investigation will be undertaken into whether the views of finance and non-finance manager differ and whether seniority level affects perceptions. This will create an understanding of the views of SA managers to budgets and budgeting and allow us to compare the results to other international research on the subject. The research will seek to understand to whether budgeting adds value to business and financial managers in an organisation who have more than five years work experience. In addition, the research will probe how the respondents define value added by budgeting.

Precise measurement of perceptions is impractical. The reasons why companies budget and management views of how budgets add value to them in their roles will be used as proxy measures of the amount of value added by budgeting.

Chapter 2 Literature Review.

2.1 Budgeting defined and the evolution of budgeting

2.1.1 Definition of budgeting

The term budgeting can be interpreted in various ways and is defined as follows by The Chartered Institute of Management Accountants (CIMA) 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). The same document expands this definition 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.

2.1.2 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 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 Peffer, 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).

Two 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 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 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.

2.2 Current international 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 these forecasts is industry dependent. Industries that operate in volatile markets where conditions change would require budgets that are updated more frequently (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).
- **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).
- **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)

It 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).

Proposition 1: SA companies follow the same practices and processes as their international counterparts.

2.3 <u>Problems with existing budget practices</u>

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 are linked to the perception of value that budgeting provides to an organisation are 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 budgets for 2 to 3 weeks (Libby and Lindsay, 2007). Financial staff predominantly use Excel spreadsheets 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 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 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 that financial managers find it hard to trust non-financial 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 (Andrews, 1987).

- **Lack of Alignment between Budgets and operations.**

  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)

Proposition 2: SA companies have the same problems with budgets and plans as their international counterparts.

2.4 Why do companies budget?

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.

In Table 1 of the study by Shastri and Stout (2008 p 20) the mainly American 720 members of the Institute of Management Accountants (IMA) ranked the usefulness of budgets in supporting eight business objectives. The results shown in table 1 below reflect the percentage of respondents that found budgeting very useful or useful in supporting the business objectives.

Table 1 Summary of Very useful / useful functions of budgets

Business Objective	Study Definition	Percentage result for Very Useful / Useful
Operational control	To ensure that actual results are consistent with planned results; to provide feedback / assessment regarding operating activities	84.3%
Resource / operational planning	To estimate the resources required for forecasted operations or to anticipate financing needs.	73.5%
Communication	To provide a road map for	69.9%

Business Objective	Study Definition	Percentage result for Very Useful / Useful
	employees to deliver output/services as expected by management; to communicate how individual units of the organisation contribute to the overall strategy.	
Incentive rewards determination	To determine bonuses or other benefits based on comparison of actual vs. budget.	68.1%
Strategic planning	To support strategic initiatives specified by top management	60.0%
Motivation	To encourage employees to put forth effort in terms of stated goals and objectives of the organisation.	58.8%
Coordination / teamwork across functional areas		53.3%
Coordination / teamwork across subunits	To encourage teamwork across business segments (divisions, product lines etc)	51.4%

Summary extract prepared by J King from Table 1 pg 20 Shastri & Stout 2008.

Shastri and Stout (2008) stress that their study contains a measure of response bias because of its focus on accountants preparing budgets. For this reason, a broader study including operational managers would provide a more balanced view of budgeting.

The summarised round table discussions by participants in the Better Budgeting forum (2004) support the findings above.

Proposition 3: SA companies budget for the same reasons as their international counterparts.

2.5 How do budgets add value to a company?

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.

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 course content of a Wits Business School Course (WBS 2009) on offer highlights that South African managers have a need to integrate Strategy and Budgeting.

Proposition 4: SA companies define value in the same way as their international counterparts.

Chapter 3 Research Propositions.

3.1 Research propositions flowing from literature review

From the literature review, it is clear that traditional budgeting suffers from 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). There is no significant shift towards Beyond Budgeting by organisations (Better Budgeting Forum, 2004; Hansen et al, 2003; Shastri and Stout, 2008). When reviewing the evolution of budgets against the definition of Beyond Budgeting shows that the gap between traditional budgeting and Beyond Budgeting is narrowing. More and more companies are applying the teachings from Beyond Budgeting to their budget processes to improve them and remove current budgeting flaws. This research report will investigate whether or not local managers and finance practitioners believe that budgets add value to South African manufacturing companies through the following four propositions:

Proposition 1: SA companies follow the same practices and processes as their international counterparts.

Proposition 2: SA companies have the same problems with budgets and plans as their international counterparts.

Proposition 3: SA companies budget for the same reasons as their international counterparts.

Proposition 4: SA companies define value in the same way as their international counterparts.

Chapter 4 Research Methodology.

4.1 Methodology

Three of the referenced studies formed the starting point for this research, namely Libby and Lindsay (2007), Shastri and Stout (2008) and Bourne (2004). All three studies were electronically administered surveys, targeted at Financial Professionals involved in Budgeting. A review of practice developments in budgeting by Hansen, Otley and Van der Stede (2003) listed a number of key problems with budgeting that were also considered in putting together the research methodology.

A gap in previous research was that investigations were limited to finance practitioners and have excluded non-financial participants in the process. This led to the question as to whether or not all problems or corporate value from budgets have been identified. This study investigated the experiences and views of non-financial managers in addition to those of finance professionals. In order to minimise the risk of a finance-view bias in the research, Qualitative research, in the form of semi-structured expert interviews (Zikmund (2003) refers to depth interviews) was undertaken. An electronically administered questionnaire could have missed unique insights from non-financial managers. The key interview purpose was to solicit the views and experiences of the interviewee in a structured and flexible manner, so an interview prompt sheet was utilized. Where necessary, the interviewer prompted to participants to gain a deeper understanding of their responses or to provide more clarity around the questions (Zikmund, 2003).

Refer to Appendix 1 for a copy of the interview guide. In order to ensure consistency of interview process, the author conducted all of the interviews personally.

To ensure the collection of relevant data, interviews focused on experienced and expert managers. For the purposes of this study, an experienced and expert manager was defined as someone with more than five years work experience along with three years experience in their current or a similar role. A finance professional was defined as person who has obtained a relevant accounting academic qualification or was currently employed in the role of a financial manager/financial accountant/financial controller etcetera. The opening questions in the interview guide were designed to gather this information.

In order to ensure candid responses, respondent anonymity was assured along with confidentiality. Anonymity was achieved by recording details of respondents and companies separately and using randomly-generated identification numbers in the report. Any references to the company or the interviewee were removed from the electronically stored transcription of the interview. Aggregate reporting was used in the results analysis with a minimum of two respondents or companies used in reported results.

In addition to investigating the sources of value from budgeting for SA manufacturing companies; the study sought to understand if there were differences in the budget perceptions of financial versus non-financial managers. It further explored differences in budget perceptions and experiences between senior and middle management, both financial and non-financial. The diagram below shows the multiple levels of interaction and communication that are possible during the budgeting process, each of these interactions could shape an individual's perceptions of the process. To avoid any confusion in the research process, senior management were referred to as "group" managers and middle managers are referred to as "operational".

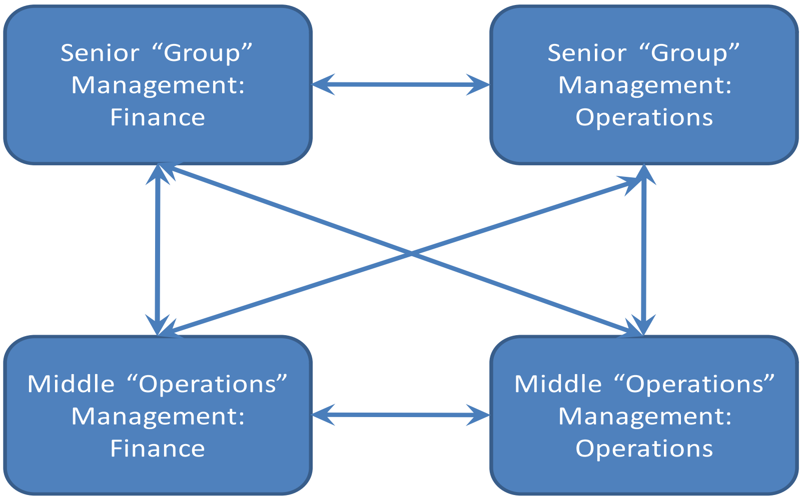

Figure 4-1 Functional roles and potential levels of interaction and communication in the budgeting process

To limit researcher bias in the findings and enhance research rigour, multiple interviews per company were undertaken to cross validate research results within a company (Leedy and Ormrod, 2004). As a consequence, no single participant's views were able to distort the overall results. Secondary data was not available to conduct secondary data analysis to support research findings.

4.2 Unit of Analysis / Population and Sampling

To ensure that managers had a similar frame of reference, the study was limited to companies in the manufacturing sector. It was more likely that some of the newer budgeting techniques like Activity-Based Budgeting and detailed operational driver-based budget techniques were used in the manufacturing industry. It was acknowledged that the focus on the manufacturing industry creates the risk of sample bias and that the results could not be directly relevant to the total population of managers in South Africa.

The unit of Analysis for this study was managers who work for a manufacturing company or group. The population was defined as managers who work for major manufacturing companies in South Africa having two or more separately operated and managed business units (Zikmund, 2003). The focus of the study was to interview multiple managers in a company, which led to the sample being designed in terms of suitable companies. Access to companies could not be guaranteed so principles of non probability and convenience sampling were applied in the research (Zikmund, 2003). A primary sample pool of eight suitable companies was identified using JSE listings, well known consumer brands and companies referenced in the overseas studies (Zikmund, 2003).

The South African offices following companies were approached and requested to participate in the study (in alphabetical order):

AECI
ArcelorMittal South Africa
Chemical Services
Johnson and Johnson South Africa
Peninsula Beverage Company
Proctor and Gamble South Africa
South African Breweries
Tiger Brands

A secondary sampling pool of a further three companies was defined in order to ensure the participation of four different companies in the research process (Zikmund, 2003). Four participating companies would yield a total of sixteen interviews with managers. Sixteen interviews were believed to be sufficient to gain convergence in the research findings, even though this was not a statistically representative sample.

Six of the eight original companies identified agreed to participate in the research, but research timeline constraints and business budget workload demands precluded the participation of two of the companies. One company declined to participate and the other did not respond to the request.

In each of the participating companies, a convenience sample was used with two senior and two middle managers involved in the budgeting process being interviewed. Two of the interviews targeted a senior operations manager/director and senior finance manager/director at the group or head office level (referred to as “group”). The remaining two interviews were targeted at the operational manager in charge of a business unit or operation and their financial support manager (referred to as "operations"). In addition, the experience/expert criteria listed above was be used to select participants within the companies. A total of 16 interviews were conducted. This approach was applied in two of the companies. One of the companies has a very decentralised structure and does not have senior group level operations roles, so the group level interviews was limited to the group finance director. In the other company, two group level senior operations managers were interviewed.

4.3 <u>Procedure / Data Collection / Instrument</u>

For each target company, the Finance Director was approached first to confirm the willingness of the company to participate in the research. The companies were contacted telephonically and the contact details of the Finance Director obtained in order to submit the data request. Where possible, an initial telephone conversation was held with the Finance Director/Manager to share the research objectives and methodologies. Where necessary, the research objectives were shared with the personal assistant to the Finance Director or a more junior finance representative to whom the task was delegated. A written request for data access was submitted to all of the interested group financial directors. This request clearly articulated that the research would not focus on any confidential company information but that the perceptions of individual managers were the research subject. Once confirmation was obtained, the relevant business managers were also contacted.

The interviews took place on a one-on-one basis at a time and place that suited the interviewee and were based on the interview prompt sheet. The interviews were recorded and later transcribed by a transcription house to generate a written record of the interview. The recorded interviews also allowed for thorough data analysis.

In the interviews, the interviewer explained the aims of the research, the methodology used to protect confidentiality and the research consent to be given. The right of the participant to withdraw at any time and that no company confidential information would be discussed were also stressed. The participants were then asked to sign the consent form (see appendix 2 for a copy) prior to the interview commencing. Interviews were scheduled to last no more than one hour and generally took between 20 and 45 minutes to complete.

The questions in the interview guide were intentionally general in nature to encourage the interviewee to speak in their own words. The function of the interviewer was to provide clarity on the content of the questions and to ask further probing questions in order to fully understand the interviewee's responses.

4.4 Data Analysis

The output data from the interviews was analysed and grouped into common themes both between companies and within the companies. Data was analysed using the data analysis spiral principles of Organisation, Perusal, Classification and Synthesis (Leedy and Ormrod, 2004).

- A content analysis was undertaken on the data to group responses to individual questions (Leedy and Ormrod, 2004).
- The data was further grouped into financial vs. non-financial respondents with a further content analysis being undertaken.
- A third level of analysis was prepared to investigate response differences and commonalities between senior and operational level managers.
- Response themes from South African respondents were compared to the three international studies referred to above.
- The suggestions for future improvement from respondents was analysed and grouped into common themes to develop recommendations for budgeting in the future.

Chapter 5 Results

Data was analysed using the data analysis spiral principles of Organisation, Perusal, Classification and Synthesis (Leedy and Ormrod, 2004). The information collected from participants in the study was transcribed from the recordings by a transcription service. The key propositions were used as categories for the questions on the interview guide. To facilitate linking the results of the research to the propositions, the data gathered was collated, summarised and categorised in an excel spreadsheet by question category.

Where comments or findings in the transcripts were found to answer the questions, these were included in the data summary. Where multiple answers were provided to a question, they were listed in the order of the participant supplying them. These were semi-structured interviews designed to gain participants views with minimal guidance from the interviewer. In cases where the participant was seen to have provided the answers to another question already, the researcher did not pose the question. In these situations, the data analysis, classified the responses with the question they relate to, in spite of the answers having been given in another question. In line with the commitment to protect the confidentiality of respondents some data in the summary has been restated, where necessary, to remove potentially identifying words or methodologies.

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

5.1 Composition of the participant sample

In assembling sample participants the focus was on job role and experience, so no targets were set for gender ratios. Based on sampling methodology applied, the gender split of respondents is 6% female and 94% male.

The final sample met the methodology requirements and contained an even number, i.e. four of each, of participants from the potential levels of interaction in the budgeting process as reflected in figure 4-1.

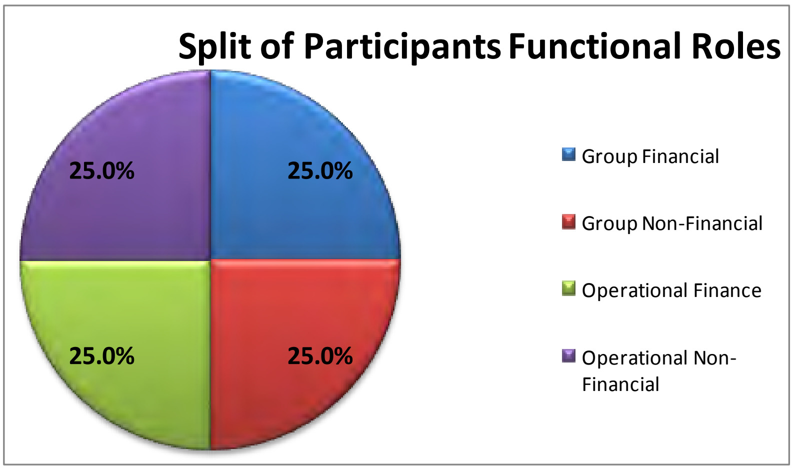

Chart 5-1 Summarised split of participants functional roles

The potential for the academic training of a participant to influence their views was considered. To assess the potential impact of this on the results of the study, details relating the academic background of the participants were collected during the interviews. Sixty three percent of participants have a financial academic background; twenty five percent are technically qualified. The remaining twelve percent of participants is evenly split between a participant holding both a technical and financial qualification and the final participant whose degree is neither financial nor technical.

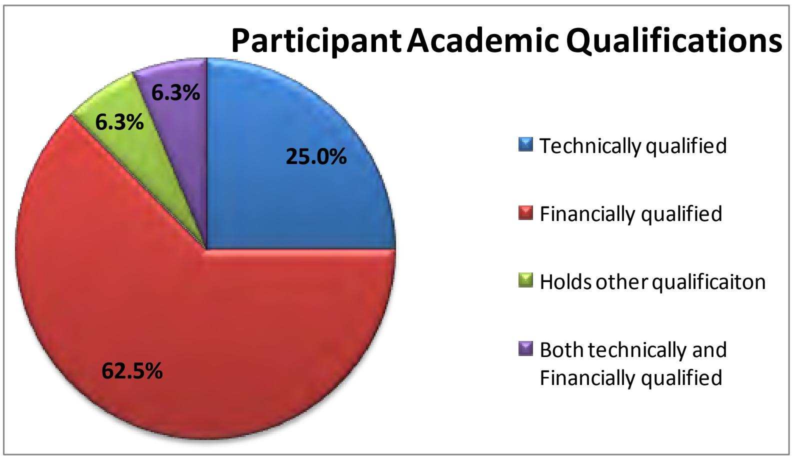

Chart 5-2 Consolidated summary of participants' academic qualifications

Participant qualifications were further analysed into the different participant groupings.

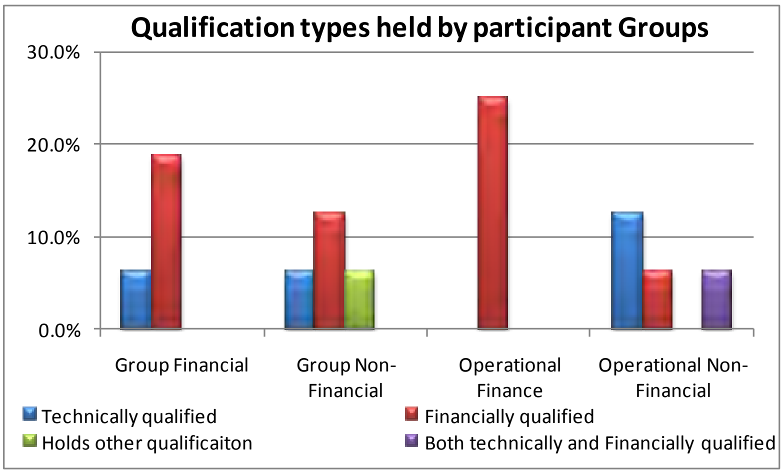

Chart 5-3 Details of qualification types held by functional role

The extent to which a participant would know and understand the processes, problems and values they experience in budgeting is linked with the amount of time they have held a position. The methodology defined an expert manager as one who has more than three years experience in a current or similar role. The initial questions in the questionnaire were designed to collect this information. The company-specific depth of a participant's understanding of the processes and impacts from budgeting in their organisation would be related to their length of service in the company. This data was also collected as part of the first section of the questionnaire.

One participant only had eighteen months experience in their current role but six years of related financial experience. On the strength of the financial experience, the results for the participant were included. Almost half of the participants have current or similar experience in excess of 5 years. A further twenty five percent have worked in their current or similar roles for between ten and fifteen years.

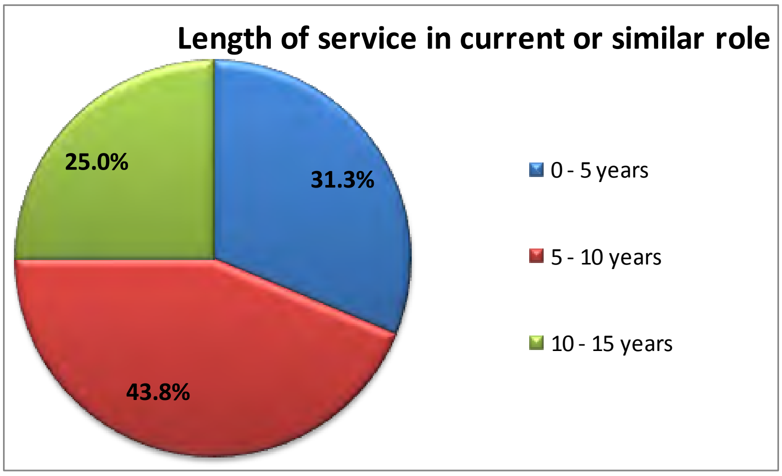

Chart 5-4 Length of service in a current or similar role

Operational non-financial participants at 9.5 years have the highest average service length while group non-financial participants have the shortest average service length at 5.9 years.

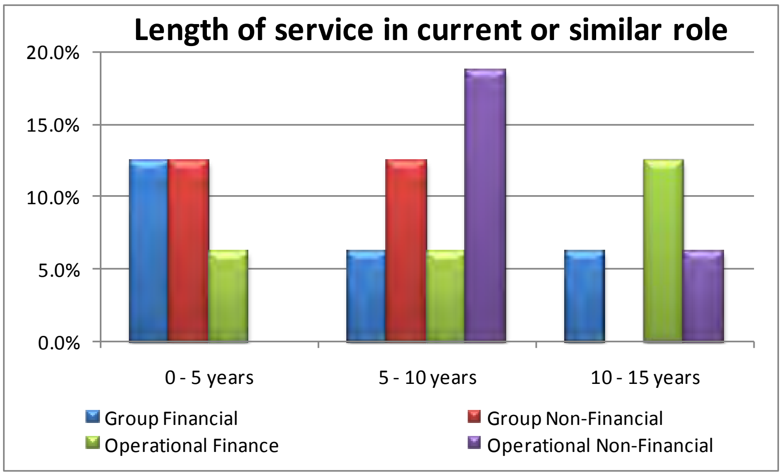

Chart 5-5 Length of service in a current or similar role by functional grouping

Over eighty percent of participants have worked for their companies for in excess of 10 years, with nearly fifty percent having service in excess of 15 years.

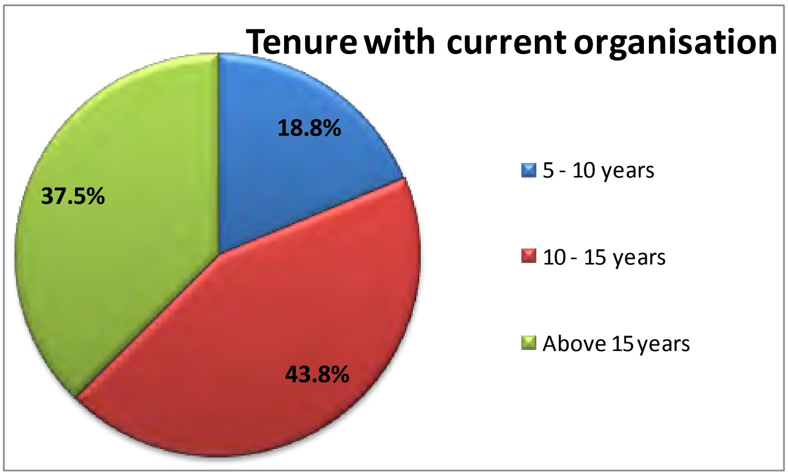

Chart 5-6 Organisational tenure summary

In line with role service length, the operational non-financial grouping also has the highest average organisational tenure at 18.8 years. This is followed by the operational finance group with an average tenure of 16.0 years. The group operations and group finance roles lag with average tenures of 12.3 and 12.6 years respectively.

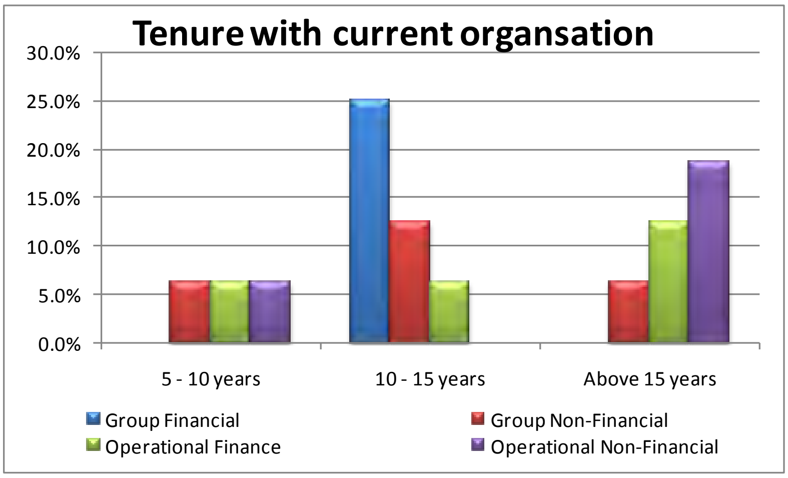

Chart 5-7 Organisational tenure by functional role

The combination of the functionally diverse and experienced respondents met the research design requirements. The long tenure per company per respondent was unexpected but is valuable as it contributes to the depth of experience and insights of the respondents of their particular organisations.

5.2 Results proposition 1: SA companies follow the same practices and processes as their international counterparts

In order to assess differences between local and international budgeting processes, participants were asked to relate their company's budgeting and planning processes. The moderator clarified that the process explanation needed to include any form of planning done and not just be limited to the budgeting cycle. This would provide insights into the extent to which the various forms of planning relate to each other and would support strategic and operational alignment.

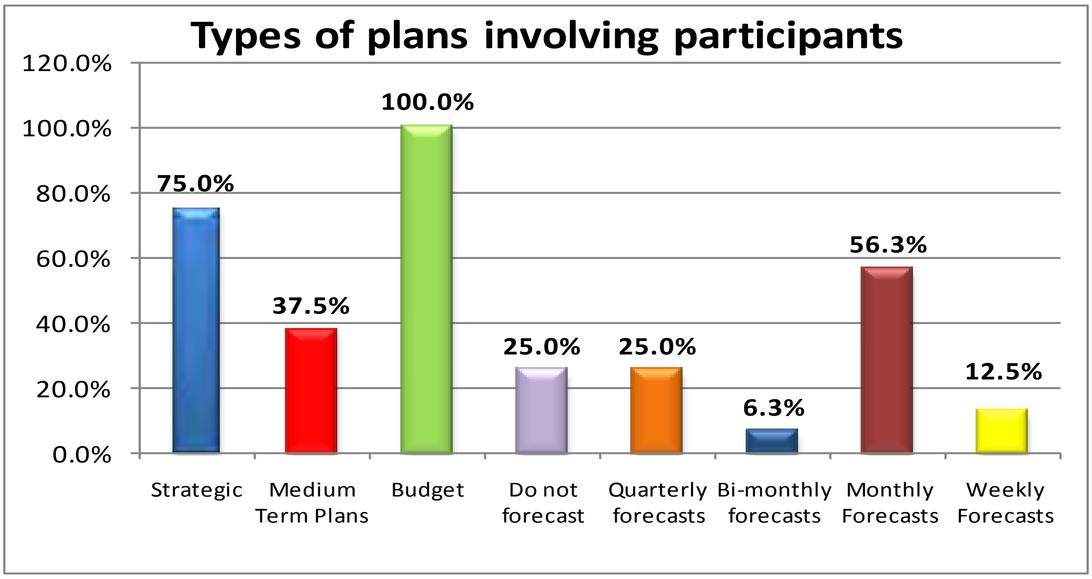

Chart 5-8 Prevalence of different plan types in the sample

The data analysis considered the different plans that participants were exposed to in the overall planning process and was not limited to plans physically prepared by them. Every plan referenced by a participant was counted and thus if a participant mentioned four different plan types, each was counted once. The totals by plan type were expressed as a percentage of the total number of participants to derive the proportional exposure of participants to the various planning types.

Participant responses in terms of process, problems and value add were analysed to ascertain the budget methodologies applied in preparing budgets. All responses from participants were counted once, regardless of the number of mentions by the participant and the number of different methodologies referred to.

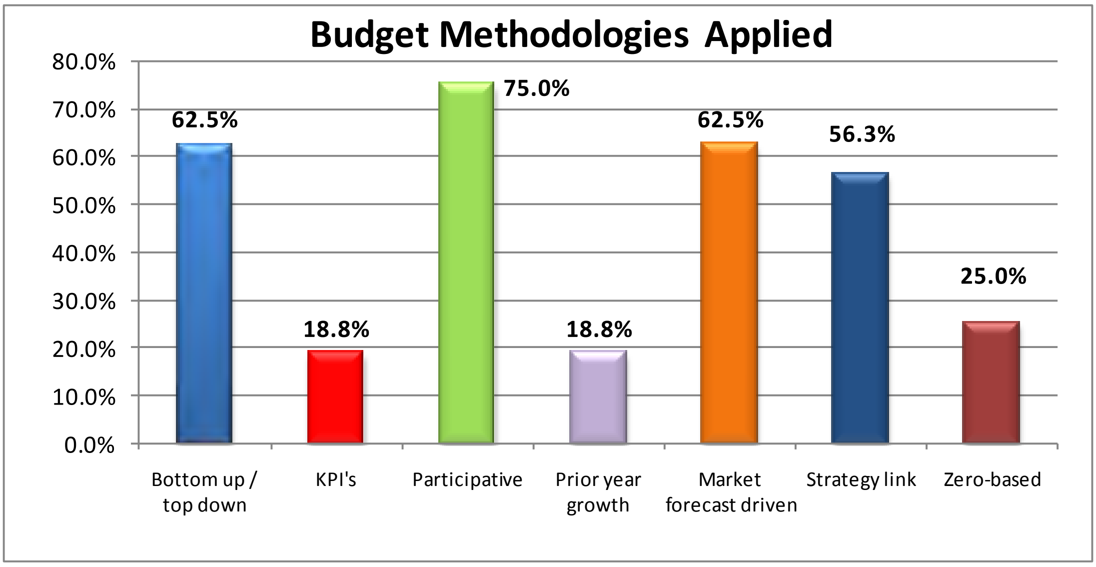

Chart 5-9 Budget methodologies applied

To assess the extent to which planning methodologies are evolving, the participants were asked to discuss changes that have happened to planning processes in the last three years. They were separately asked to provide information about planned changes in the next three years.

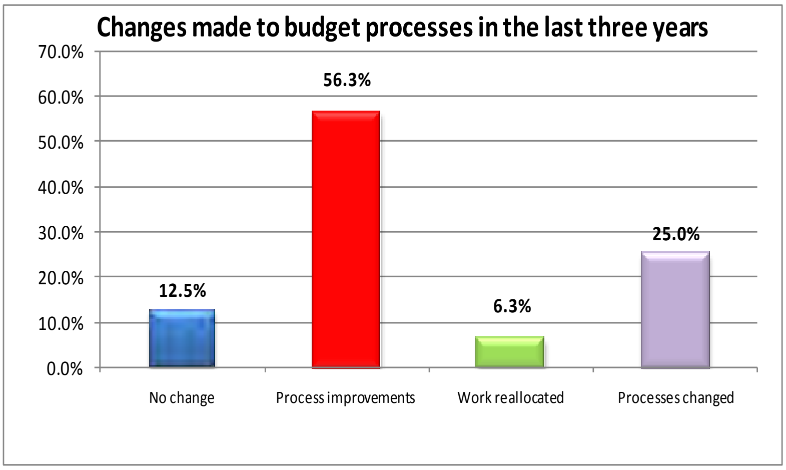

Chart 5-10 Process changes implemented in the last three years

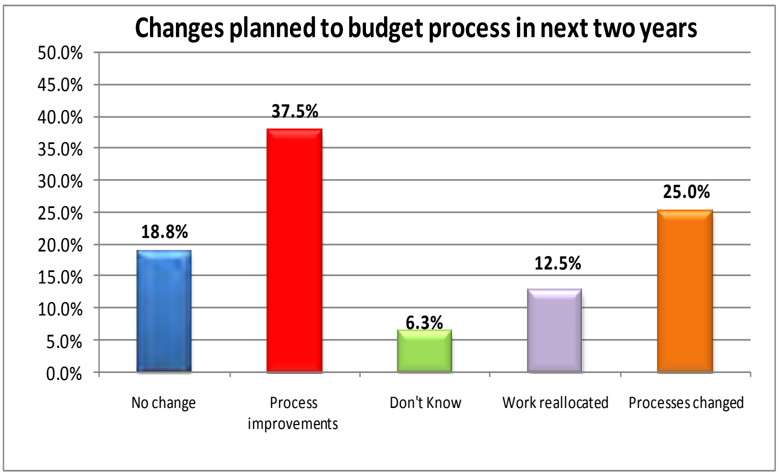

Chart 5-11 Process changes planned for the next two years

5.3 Results proposition 2: SA companies have the same problems with budgets and plans as their international counterparts

In response to the issues raised in the literature review, respondents were asked to comment on problems with budgets and in particular problems listed in the literature. The respondents were initially asked to comment generically on budget problems after which the interviewer specifically prompted the respondent to comment on problems listed in the literature.

The analysis of results focussed firstly on how many problems were reported in total, secondly on how many problems were listed prior to prompting and finally how many problems were raised after participants were prompted.

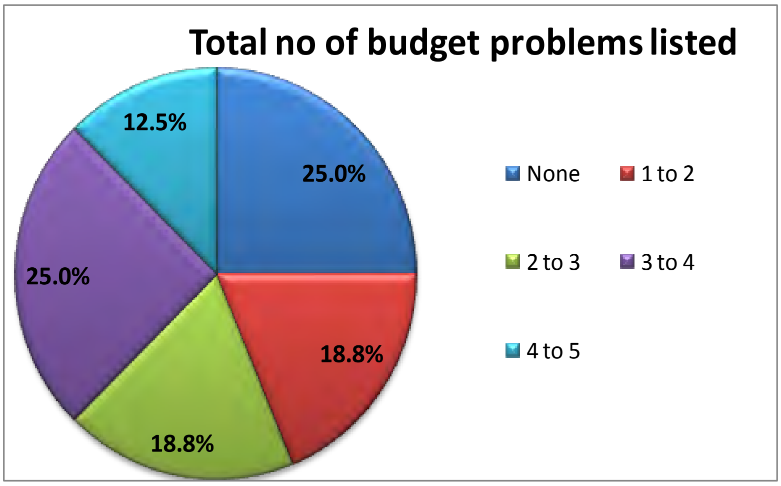

Chart 5-12 Total number of budget problems listed by respondents

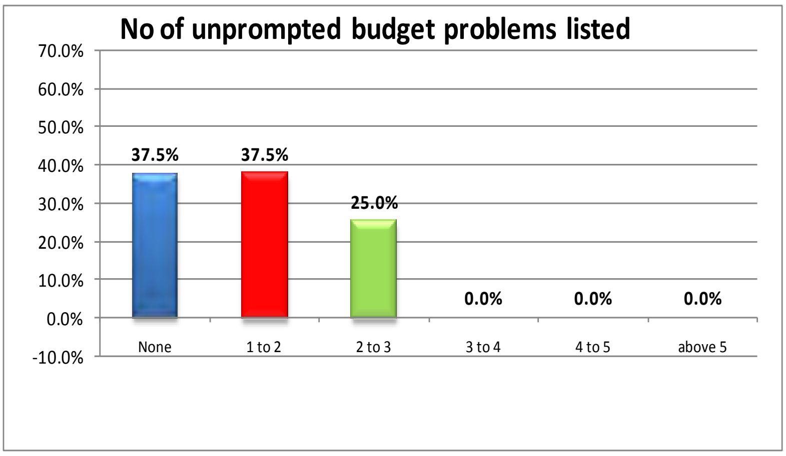

Chart 5-13 Percentage of unprompted budget problems listed by respondents

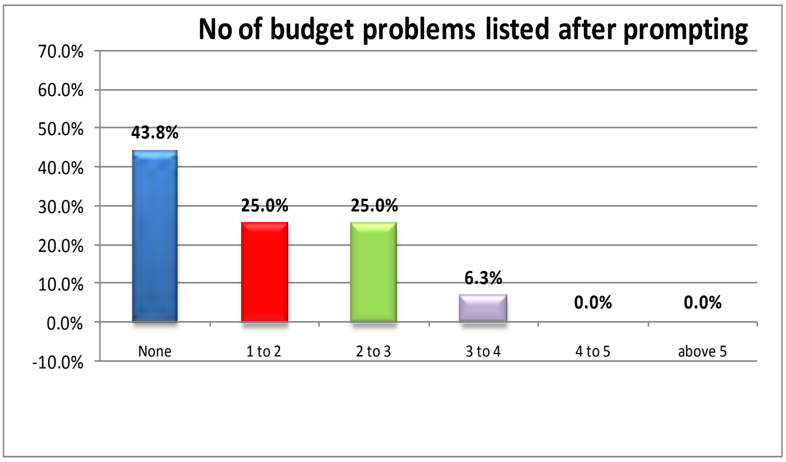

Chart 5-14 Percentage of budget problems listed by respondents after prompting

Please note: percentages in this analysis dealing with problems found in budgeting refers to the proportion of responses and not respondents.

Responses to the questions relating to problems found in budgeting have been summarised below. Responses have been ranked in descending order of response rate.

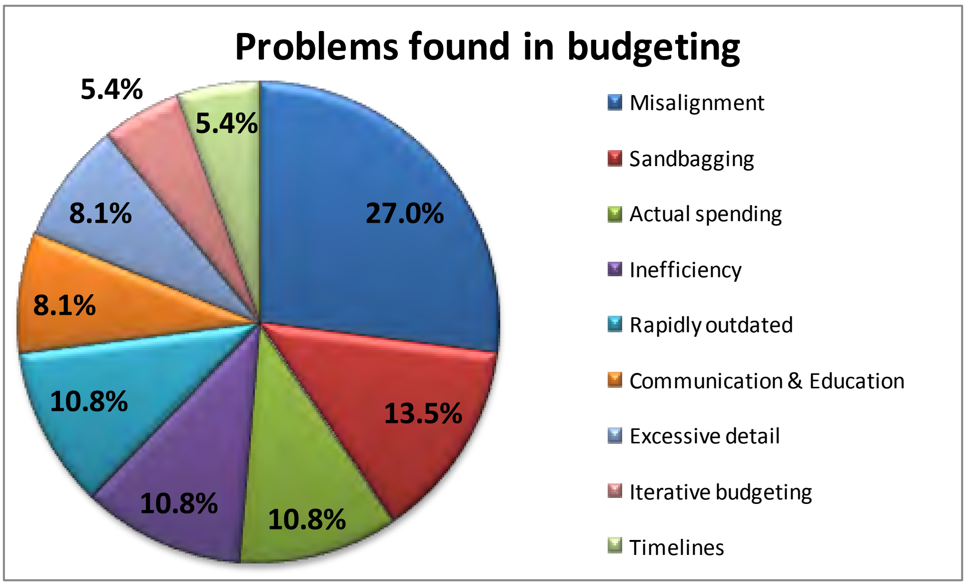

Chart 5-15 Responses provided around problems in budgeting

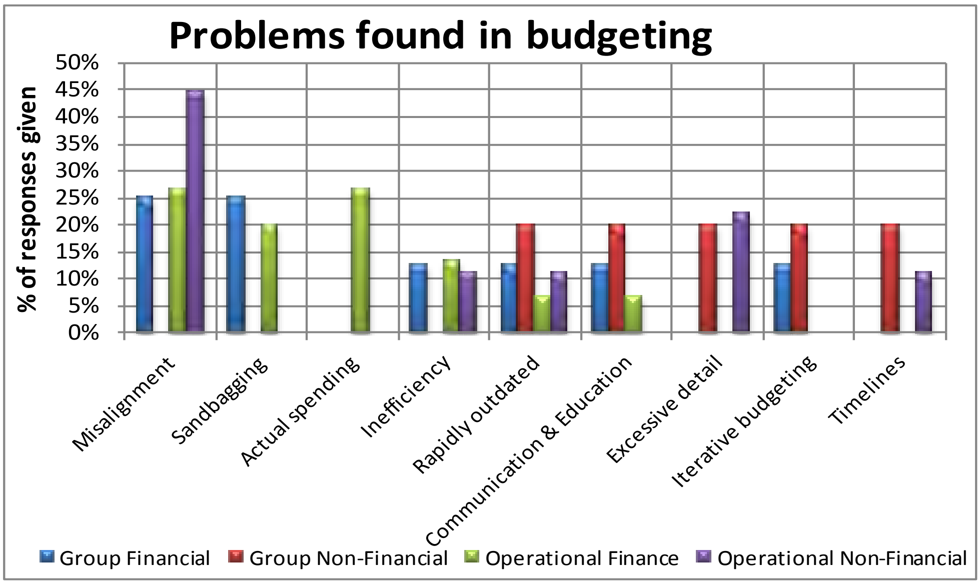

Chart 5-16 Responses provided around problems with budgeting by respondent grouping

Participants were asked about the systems used to prepare budgets. Where more than one system was mentioned, each system was counted.

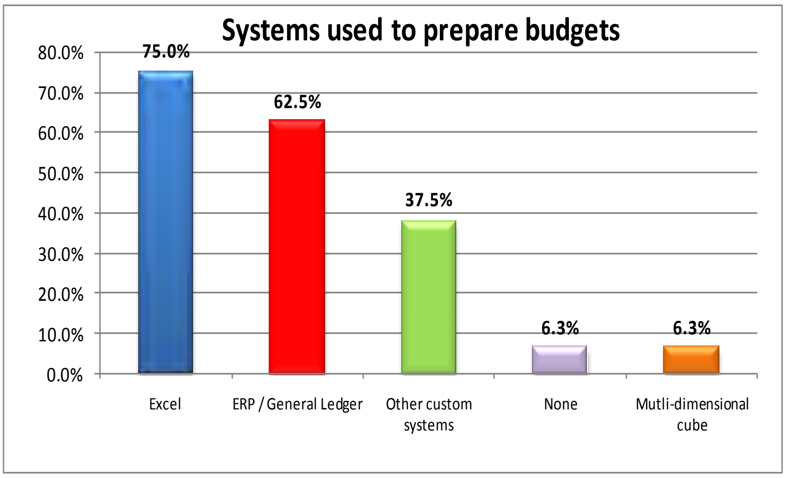

Chart 5-17 Systems used to prepare budgets and plans

Budget cycle times are a source of global benchmarking, so participants were asked about both their overall budget cycle time, i.e. number of months from the start of the process to its end, and the number of months they are involved in the process. Percentages for cycle times represent the number of participants out of the total of 16 reporting a particular cycle time value.

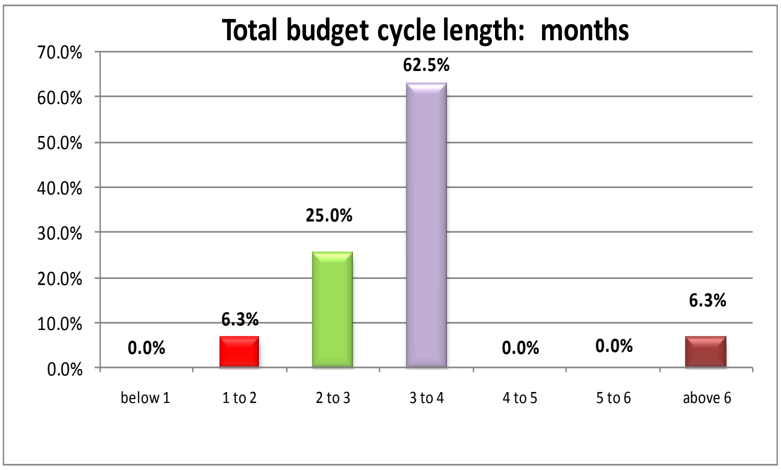

Chart 5-18 Total budget cycle time

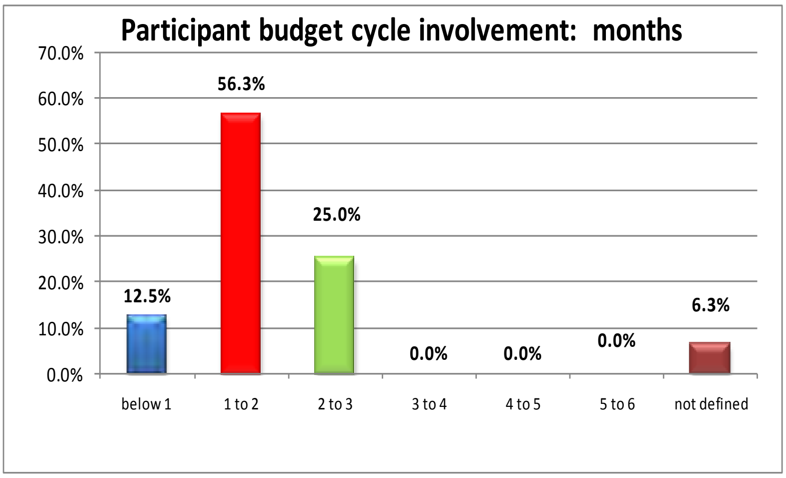

Chart 5-19 Participant involvement in budget cycle time

5.4 <u>Results proposition 3: SA companies budget for the same reasons as their international counterparts</u>

Please note: percentages in this section refer to the proportion of responses and not respondents.

Participants were asked to list the reasons companies prepare budgets and plans. The responses were summarised into key themes and the results are reflected below. If a particular reason was mentioned multiple times by a participant it was counted every time as multiple references reflect the degree of importance to the respondent. Results have been ranked in descending order of response rate.

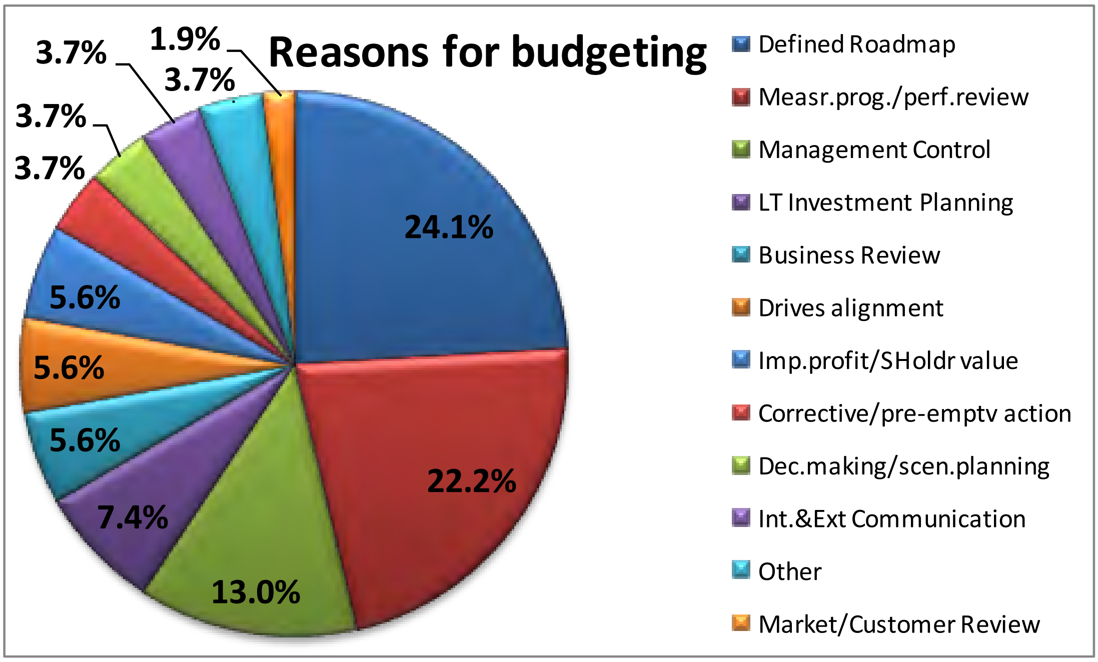

Chart 5-20 Reasons why companies prepare budgets or plans

In order to understand differences by respondent grouping, responses were categorised by respondent grouping as well.

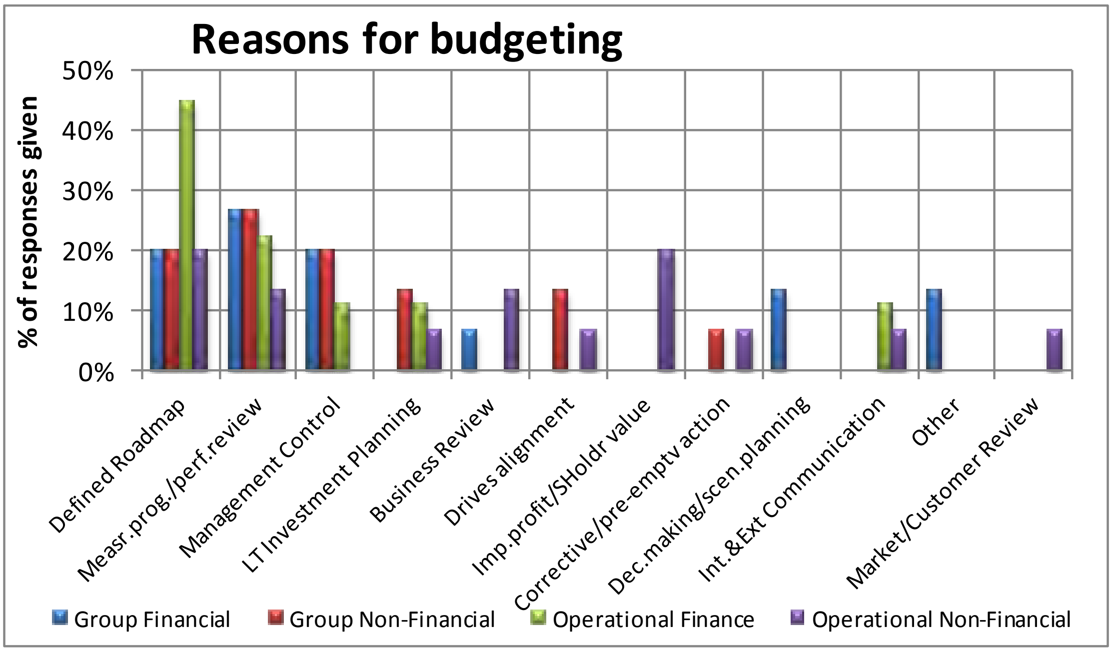

Chart 5-21 Reasons why companies budget or plan by respondent grouping

5.5 Results proposition 4: SA companies define value in the same way as their international counterparts.

Please note: percentages in this section refer to the proportion of responses and not respondents.

The following charts list the findings in respect of budget value listed by participants. It must be noted that one participant listed no value from budgeting as a result of market changes making the budget irrelevant in a very short space of time. A second participant listed the same comment as their initial response to the question.

Participants were asked to comment on both on whether they believe the budgeting or planning process adds value and whether it adds value to them personally in their job role. There was a significant repetition of responses in the two categories in the early interviews, so the interview methodology was amended only asking the first more generic question of whether budgets add value or not. Where both questions were asked, responses have been combined but duplicated responses were only counted once. Where a participant referred to the same theme but in different ways, these were counted individually as was the case with earlier analysis. Results have been ranked in descending order of response rate.

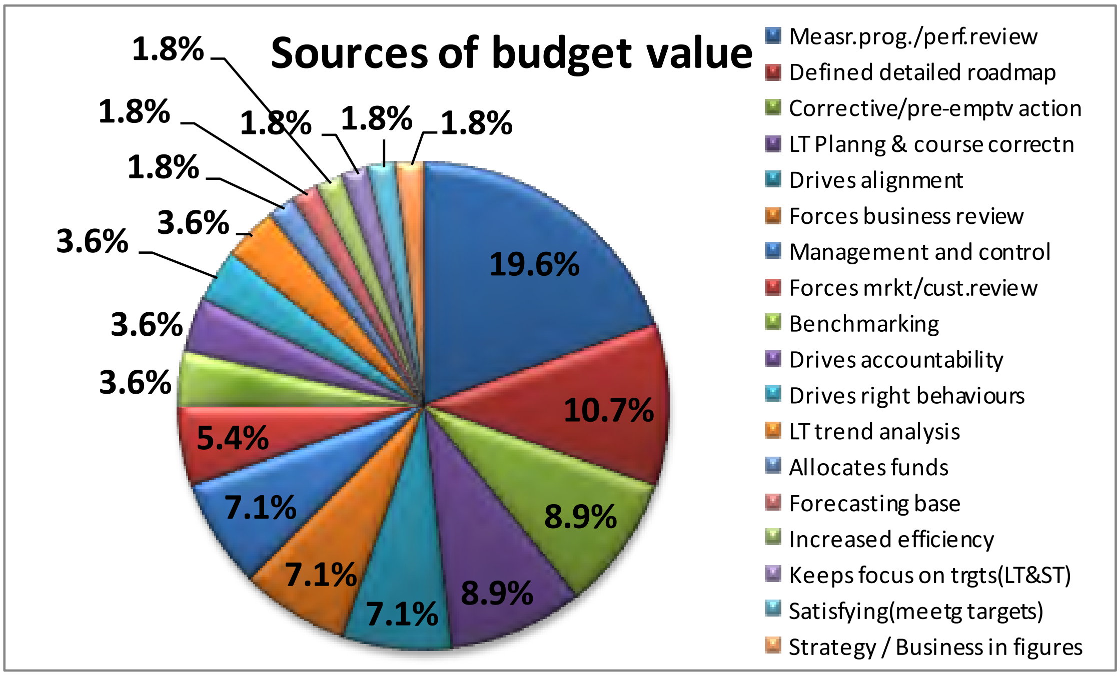

Chart 5-22 Analysis of sources of budget value

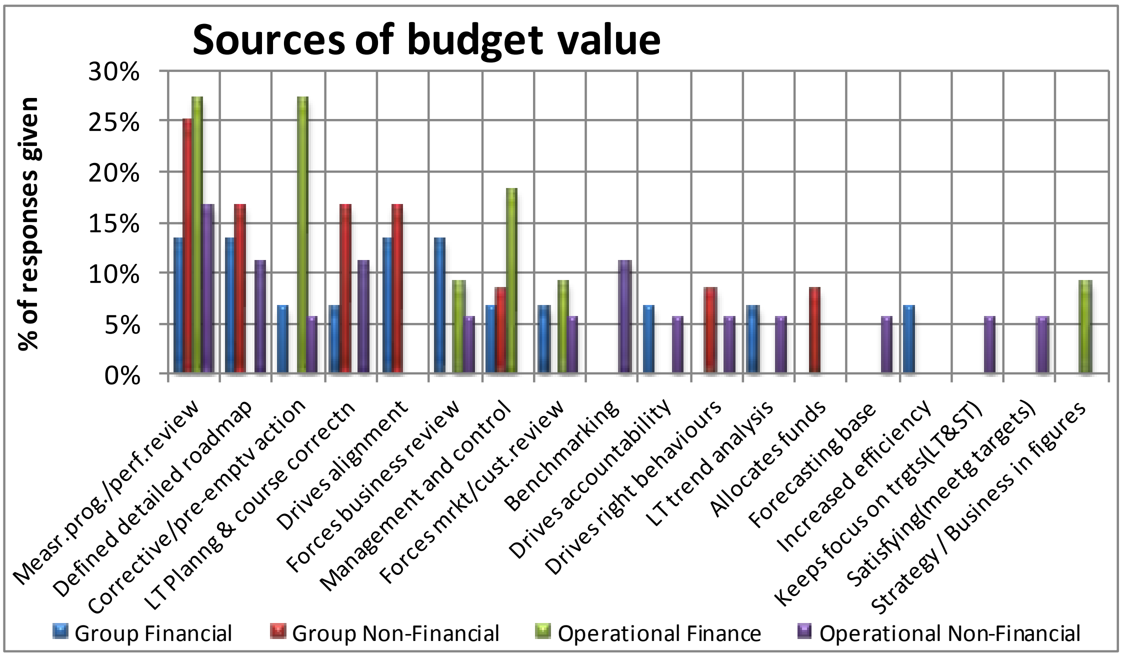

Chart 5-23 Sources of budget value by respondent grouping

In total 26 responses were given in response to the question relating to suggestions for changes to budgeting or planning process. None of the respondents suggested dispensing with budgets.

Participant's responses around suggestions for future improvements contained the following themes:

Dispense with rolling forecasts as they are an unnecessary administrative burden.
Involve key providers of information or business stakeholders earlier in the process
Clear communication of top down budget targets prior to budget preparation to limit iterative budget changes
Shorten overall process as market changes render assumptions made up front incorrect
Spend more time reviewing markets and market strategies of the companies rather than the budget numbers

Improve technology to reduce workload and improve automated communication of data
Adjust management incentives to penalise both over-delivery and under-delivery of forecasts with a heavier penalty for under-delivery.
Lengthen forecast period to gain early insights for the following financial year before planning processes start.
Improve the process of top-down budget adjustments to include operational management more fully

5.6 Results comparison propositions 1 to 4: Perceptions of senior "group" managers vs. middle "operational" managers

Please note: percentages in this section refer to the proportion of responses and not respondents.

The results for operational managers and group level managers were assessed in the same manner as the results above. The results of the different groupings were compared to the consolidated result set to provide context.

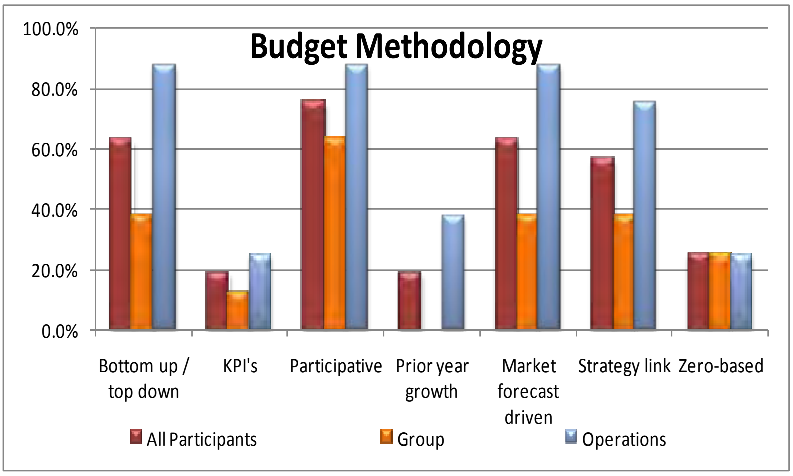

Chart 5-24 Budget methodology – group vs. operations

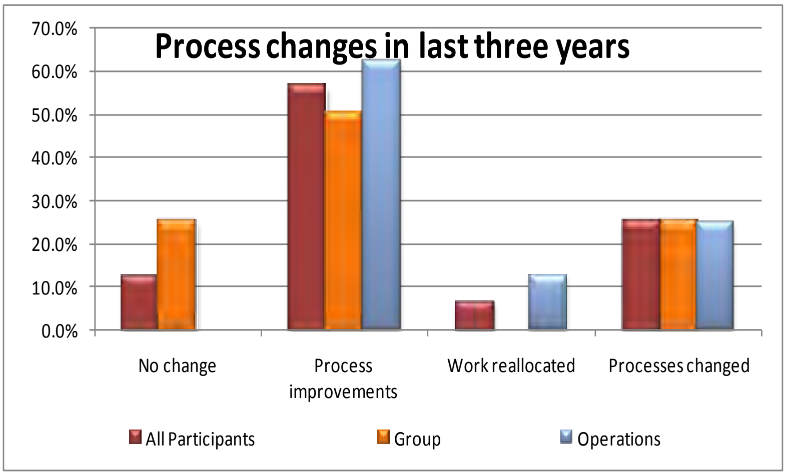

Chart 5-25 Process changes in the last three years – group vs. operations

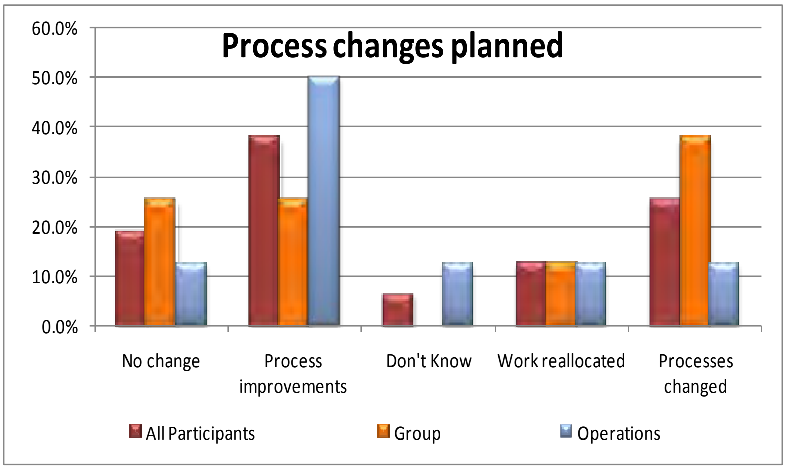

Chart 5-26 Process changes in near future – group vs. operations

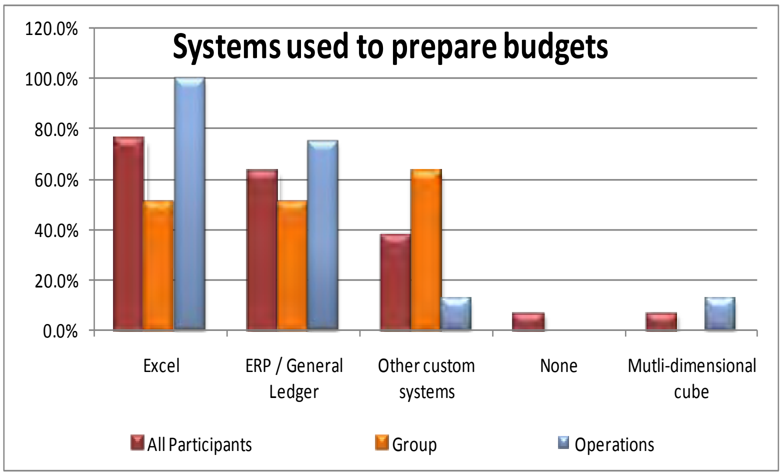

Chart 5-27 Systems used to prepared budgets – group vs. operations

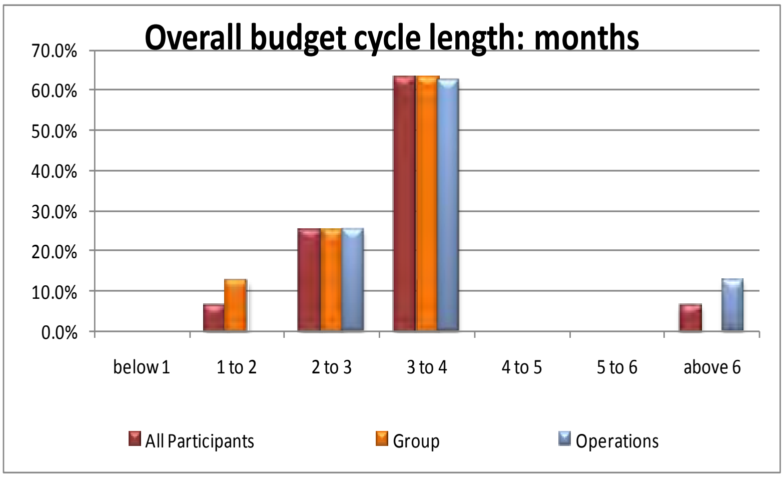

Chart 5-28 Overall budget cycle – group vs. operations

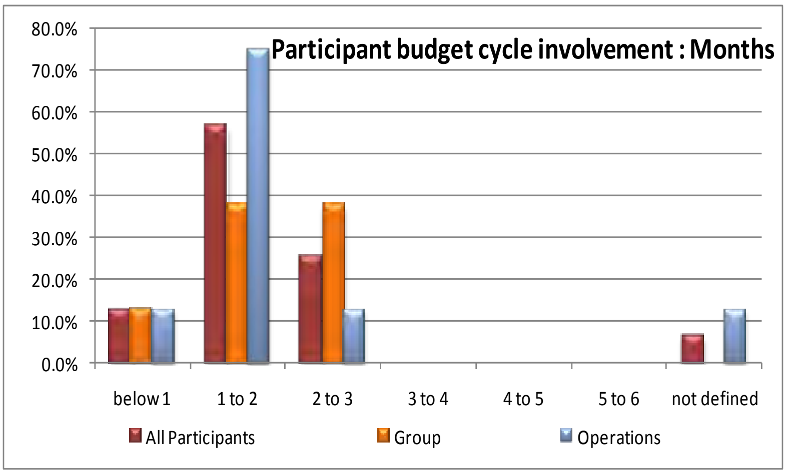

Chart 5-29 Participant budget cycle – group vs. operations

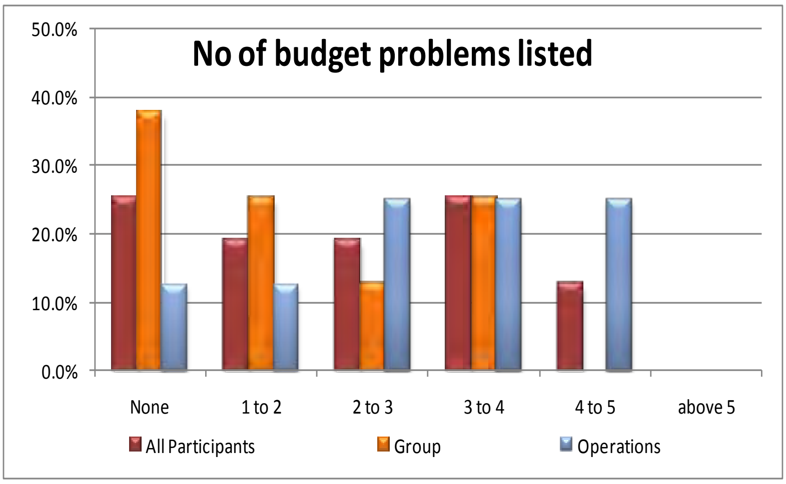

Chart 5-30 Number of budget problems – group vs. operations

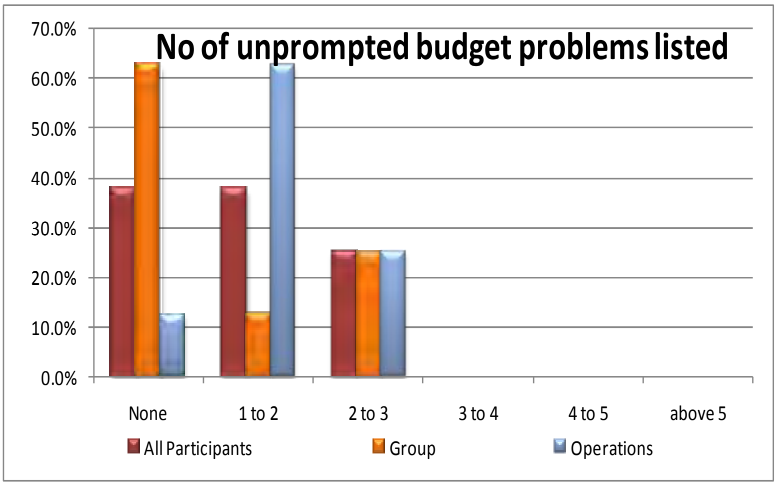

Chart 5-31 Number of unprompted budget problems – group vs. operations

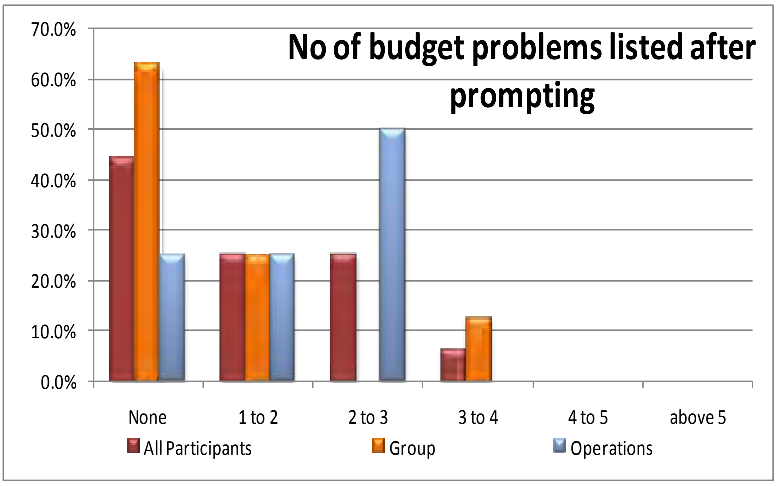

Chart 5-32 Number of budget problems listed after prompting – group vs. operations

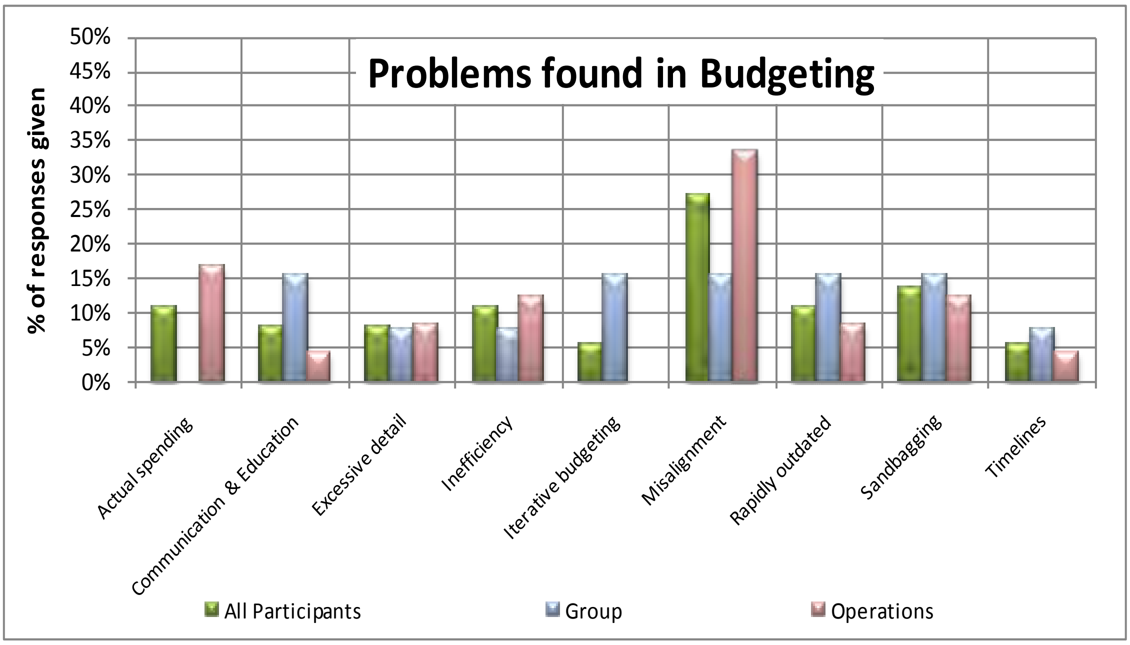

Chart 5-33 Analysis of budgeting problems – group vs. operations

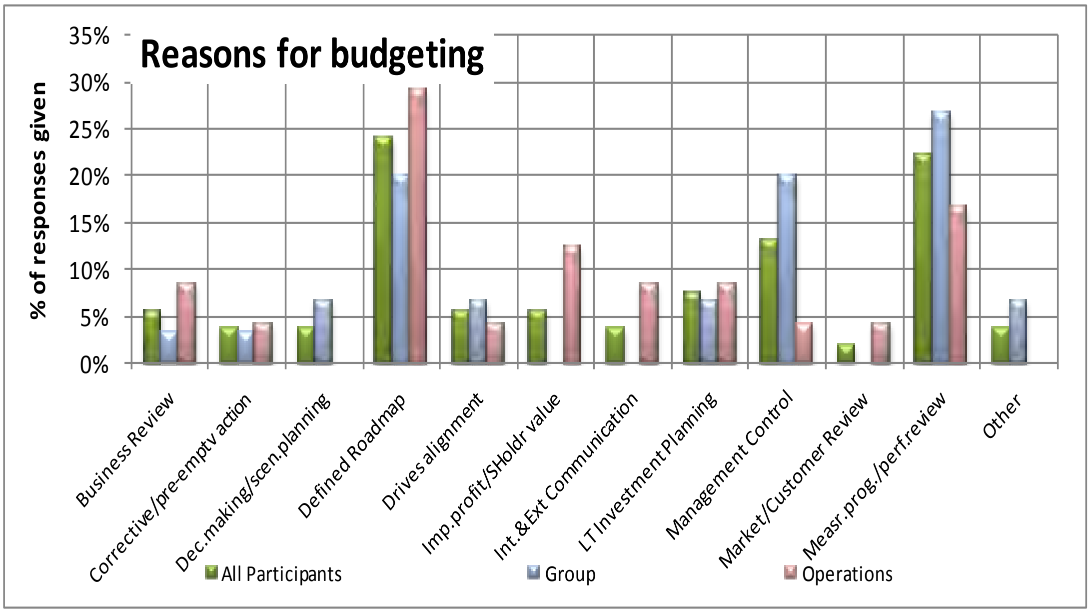

Chart 5-34 Reasons for budgeting – group vs. operations

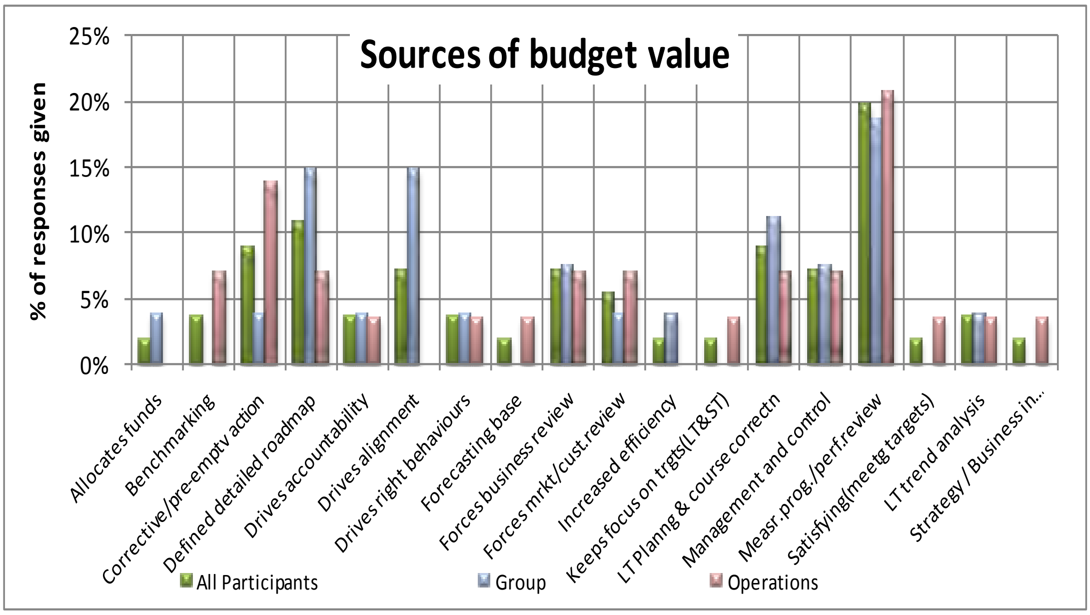

Chart 5-35 Sources of budget value – group vs. operations

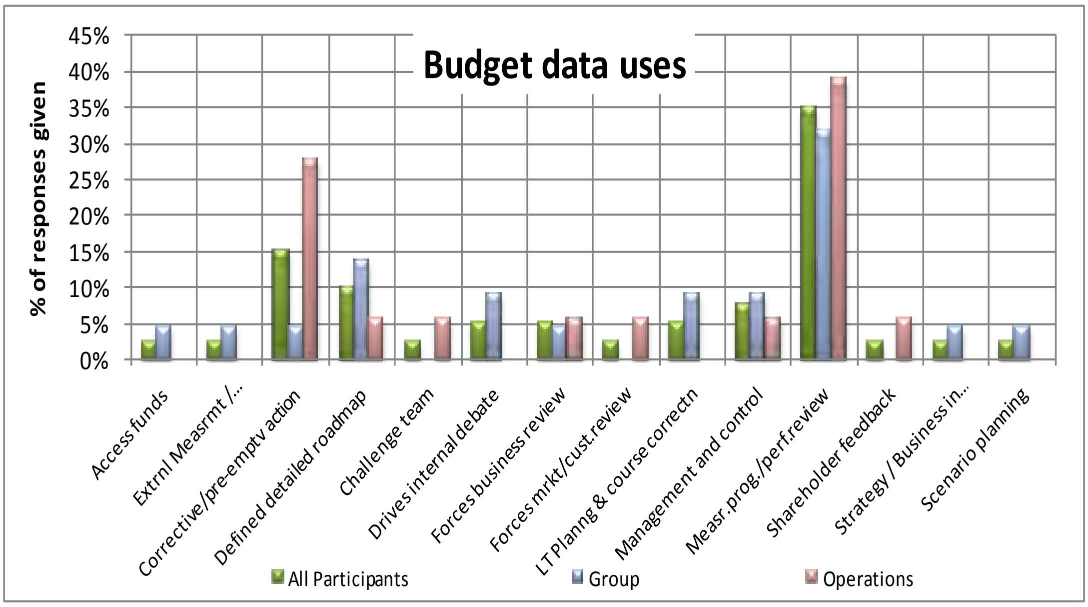

Chart 5-36 Uses of budget data – group vs. operations

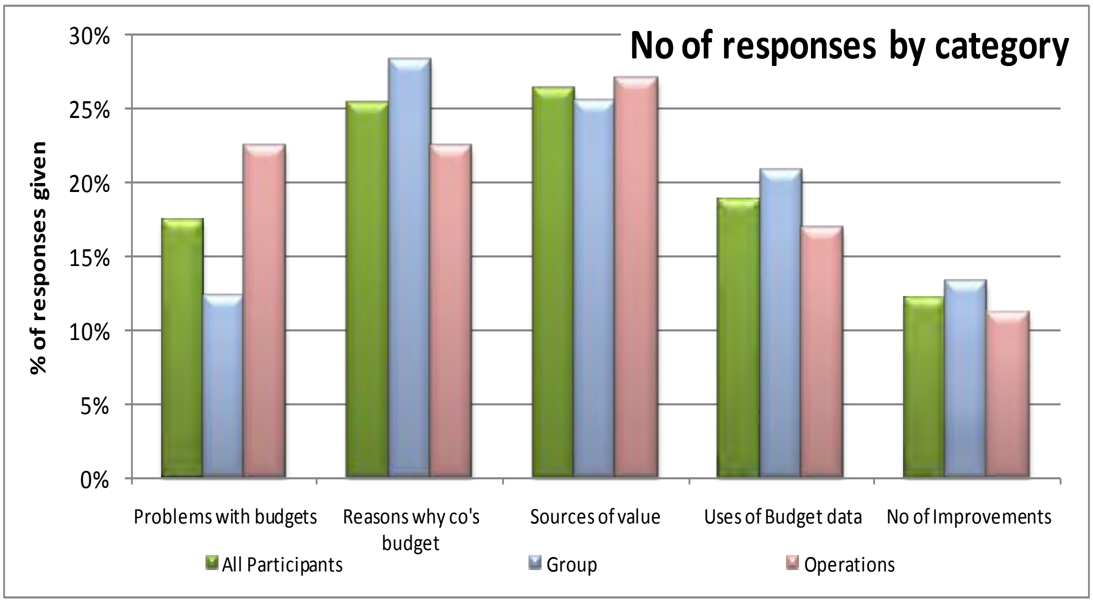

Chart 5-37 Overall response summary – group vs. operations

5.7 Results comparison propositions 1 to 4: Perceptions of financial managers vs. non-financial managers

The results for operational managers and group level managers were assessed in the same manner as the results above. The results of the different groupings were compared to the consolidated result set to provide context.

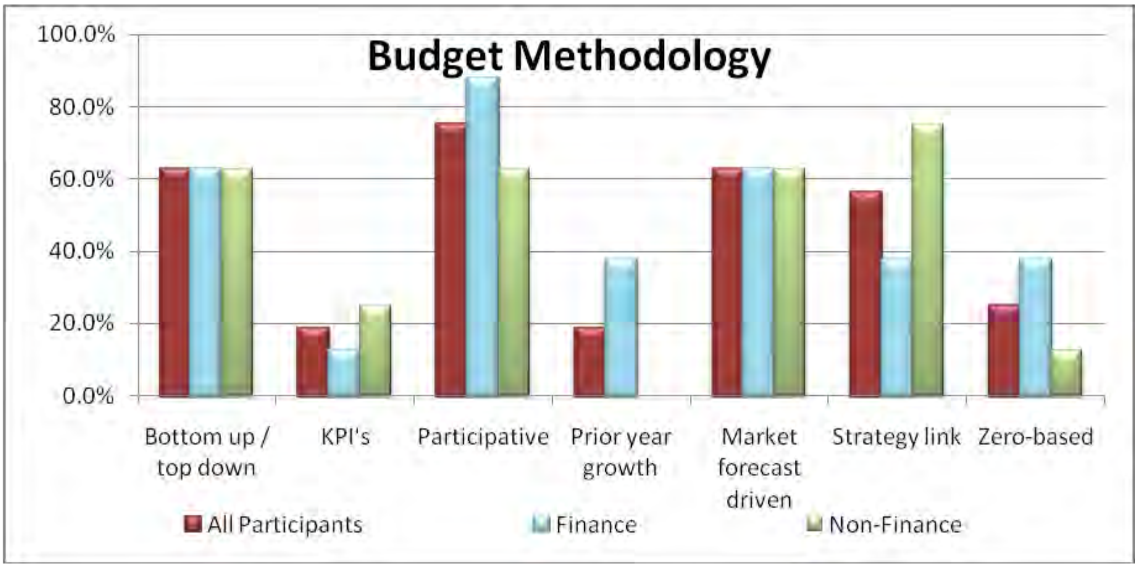

Chart 5-38 Budget methodology comparison – financial vs. non-financial

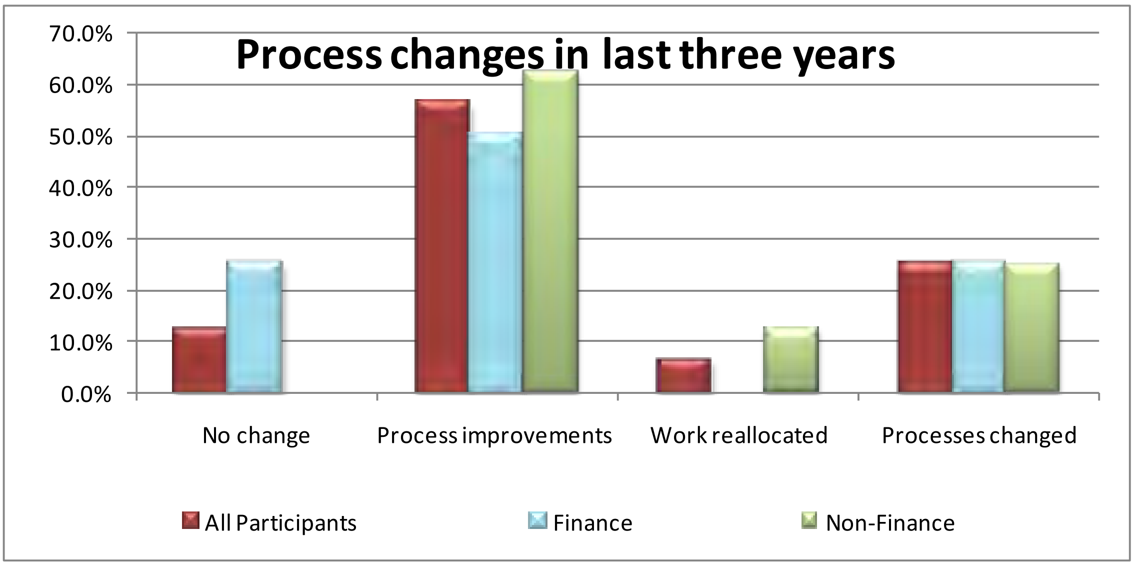

Chart 5-39 Process changes in the last three years – financial vs. non-financial

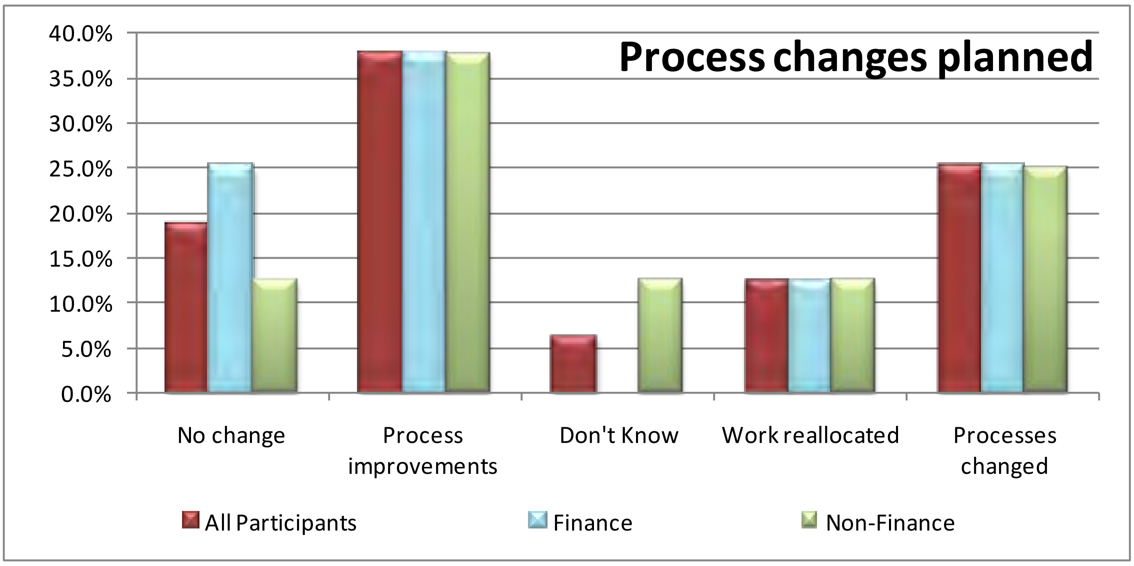

Chart 5-40 Process changes planned – financial vs. non-financial

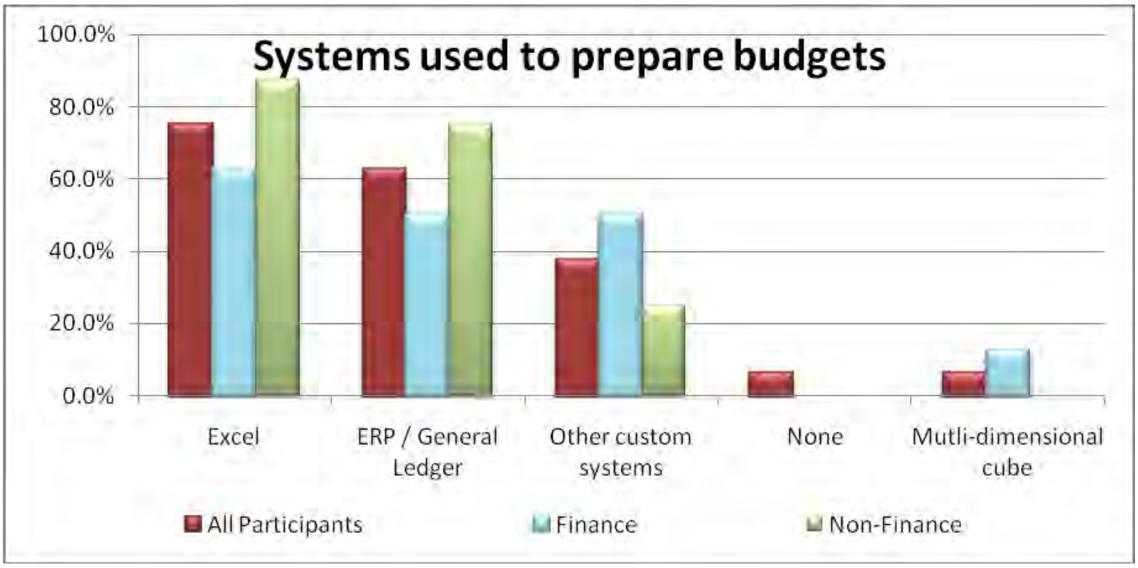

Chart 5-41 Systems used to prepare budgets and forecasts – financial vs. non-financial

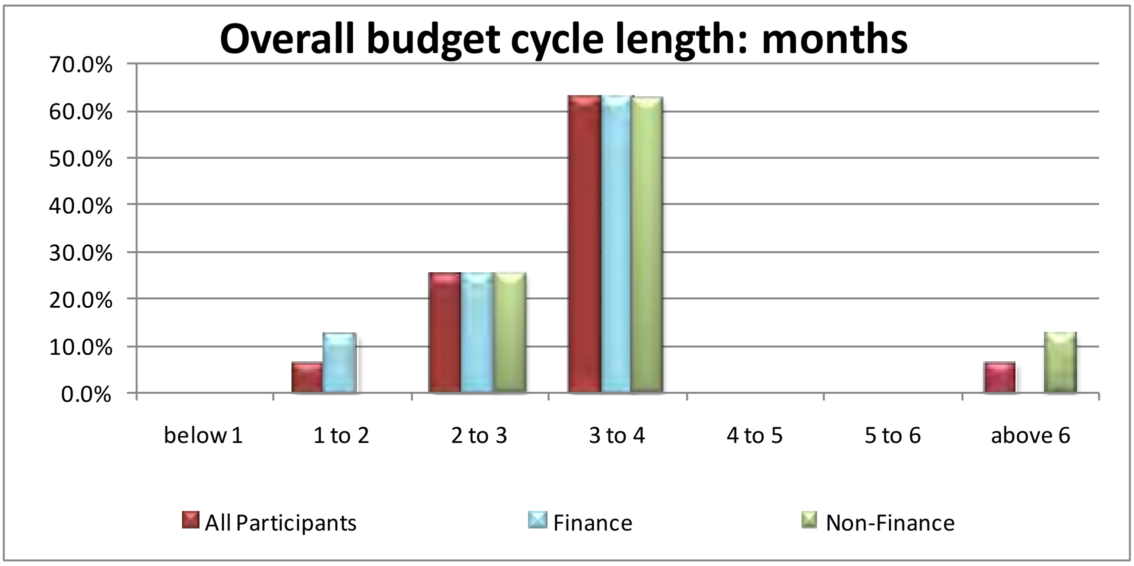

Chart 5-42 Overall budget cycle – financial vs. non-financial

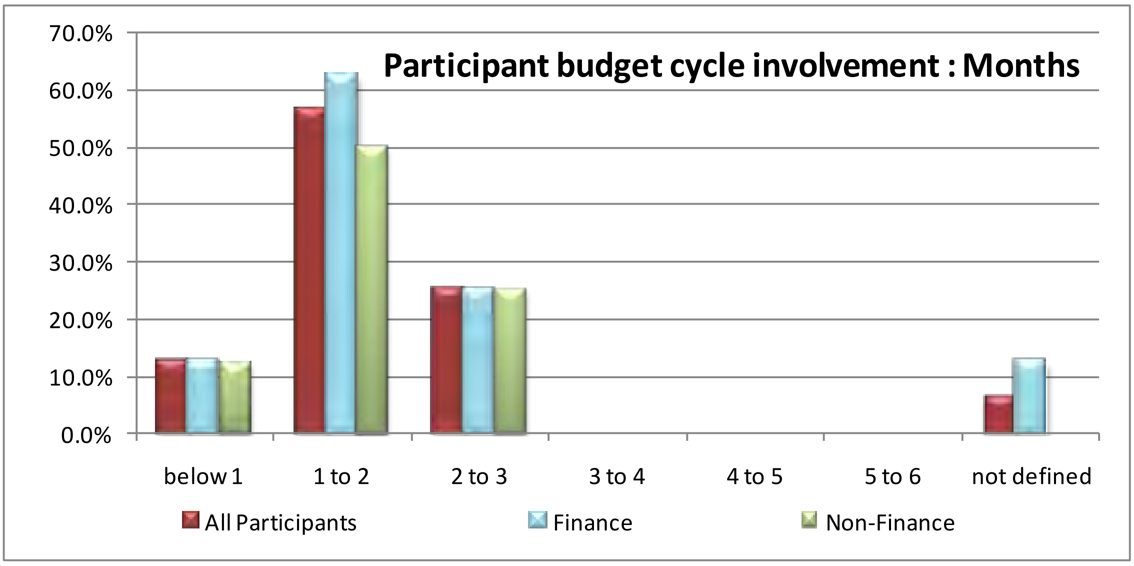

Chart 5-43 Participant involvement cycle in budgeting – financial vs. non-financial

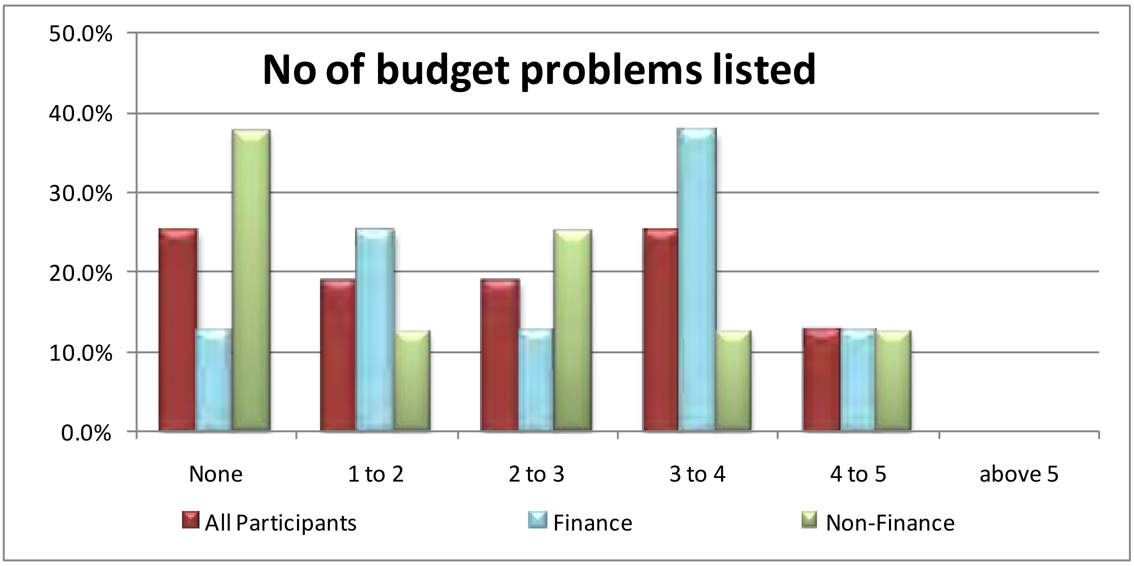

Chart 5-44 Number of budgetary and planning problems listed – financial vs. non-financial

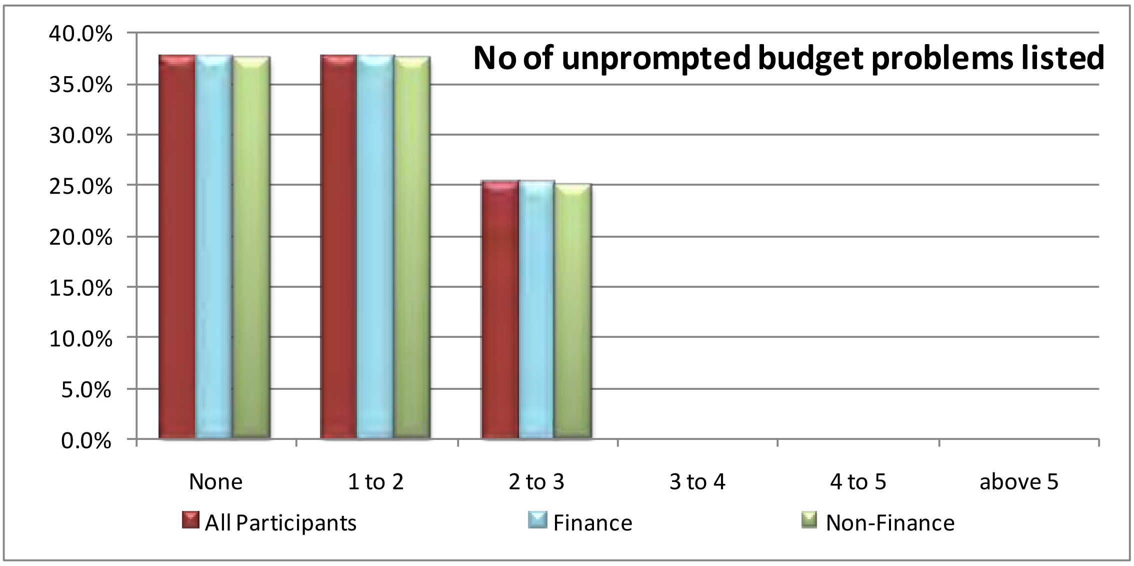

Chart 5-45 Number of unprompted budget problems listed – financial vs. non-financial

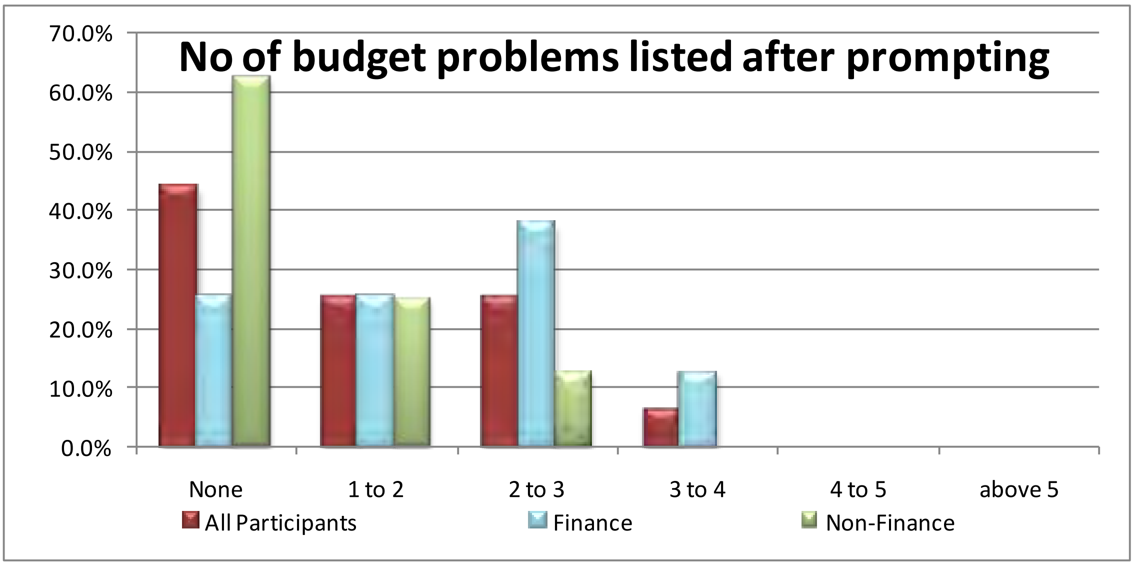

Chart 5-46 Number of budget problems listed after prompting – financial vs. non-financial

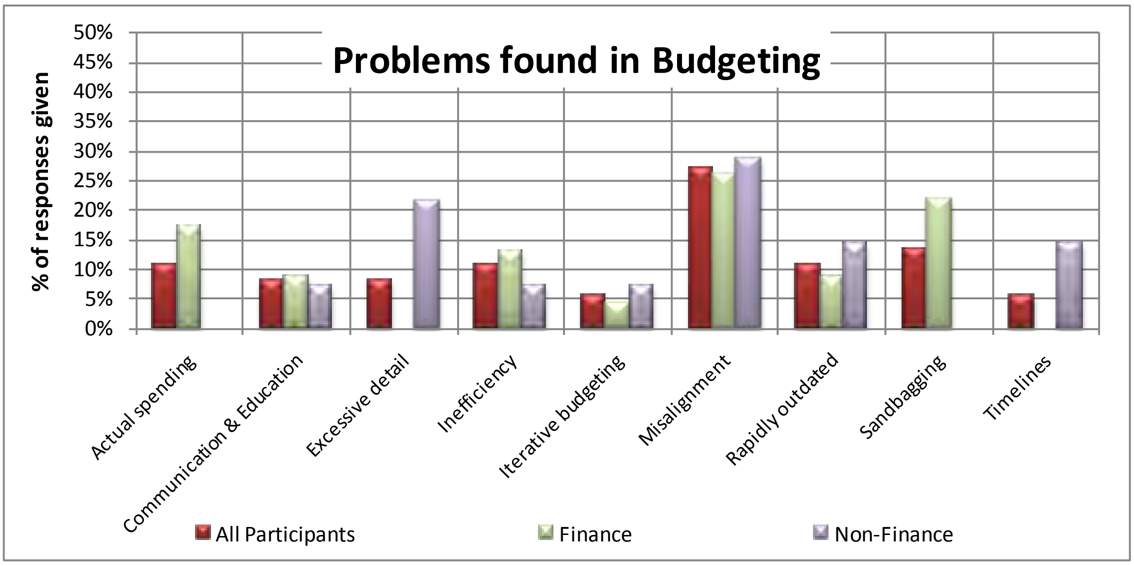

Chart 5-47 Analysis of problems found in budgeting and planning – financial vs. non-financial

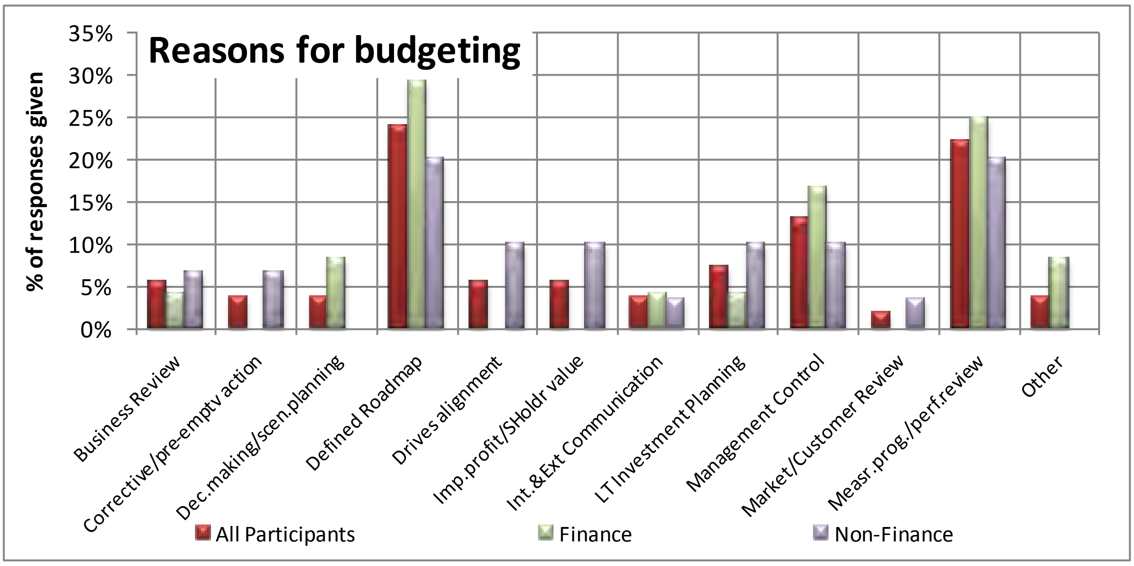

Chart 5-48 Reasons for budgeting and planning – financial vs. non-financial

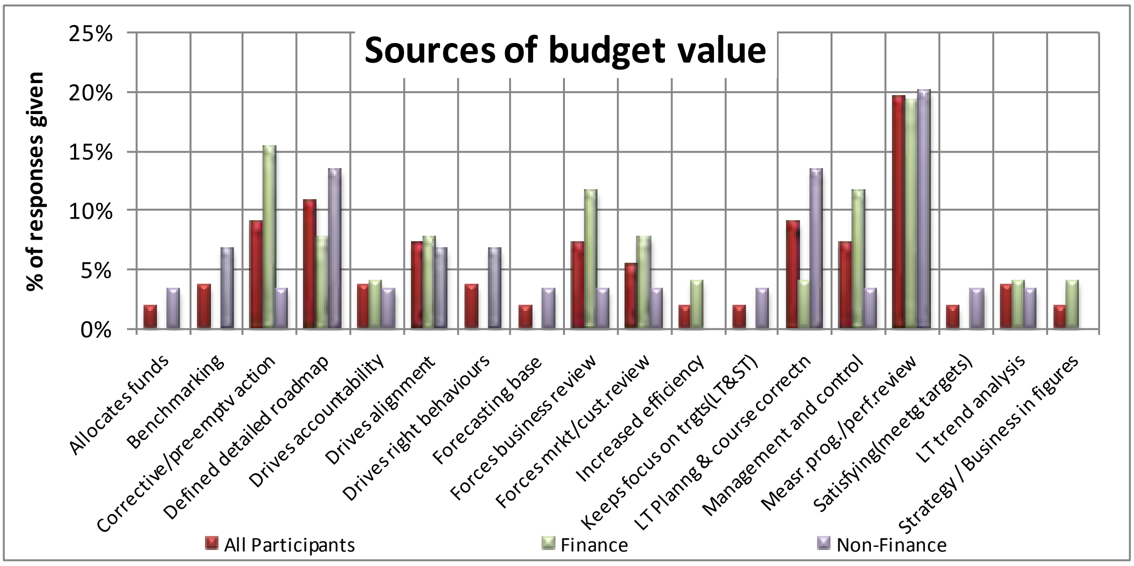

Chart 5-49 Sources of value in budgeting and planning – financial vs. non-financial

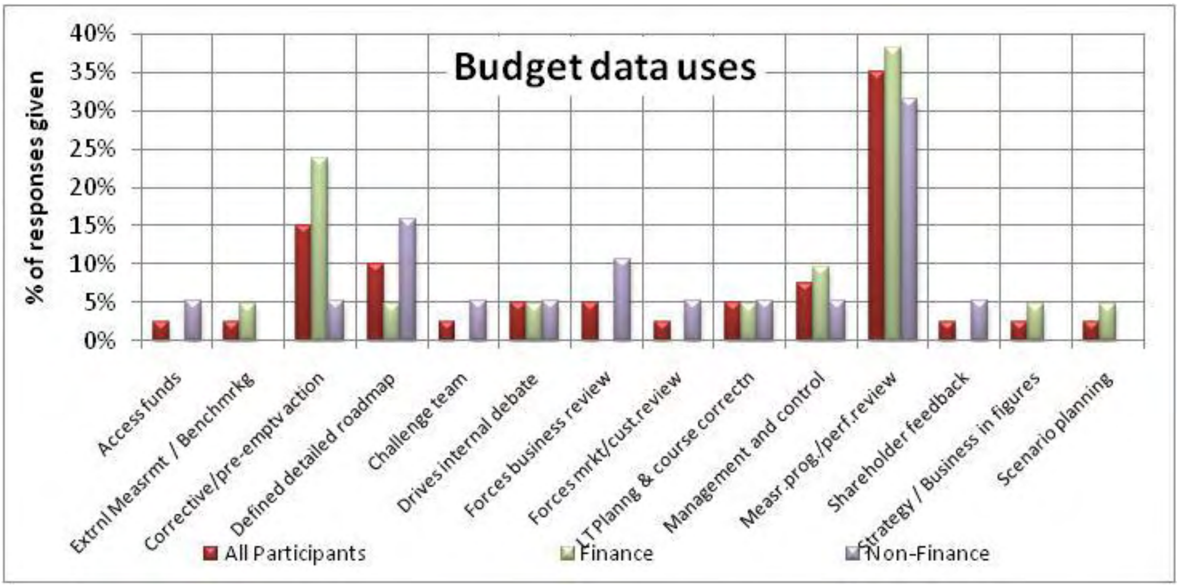

Chart 5-50 Uses of budgeting and planning data – financial vs. non-financial

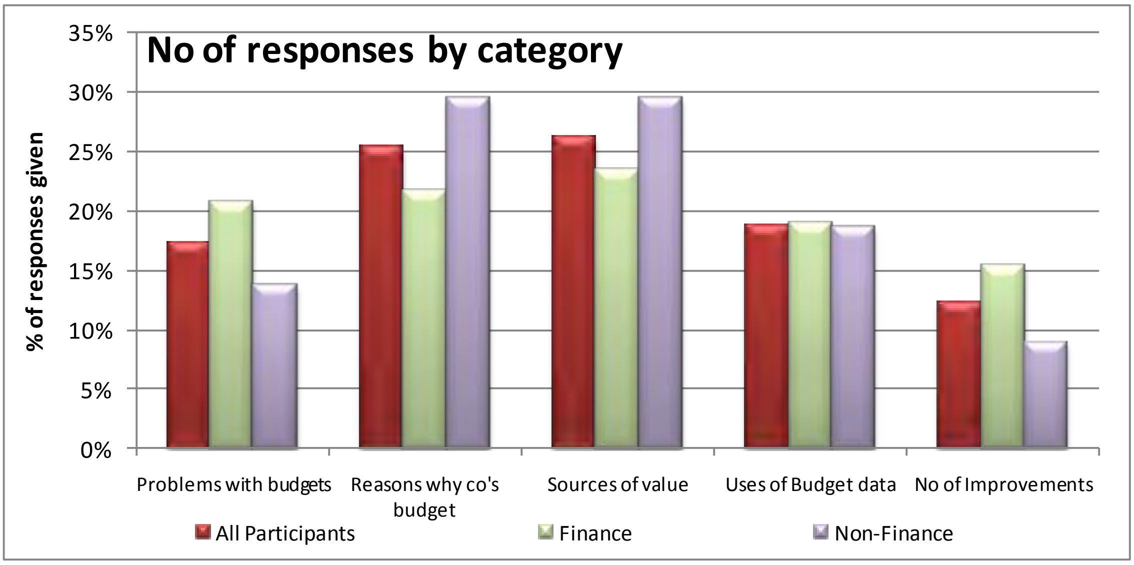

Chart 5-51 Analysis of participant responses by category – financial vs. non-financial

Chapter 6 Discussion of Results.

The research design grouped questions around four propositions. The research results and discussion of the results also focused on the same four areas of investigation. The results relating to the sample composition, demographics and educational background have been discussed in chapter 5 and will not be reviewed again in chapter 6.

6.1 Consolidated summary of responses by participants

Prior to delving deeply into the results, by proposition, it is useful to set a high level context around the findings from the key questions. The responses of participants to the questions surrounding problems with budgeting and planning, reasons why companies' budget or plan, sources of value from budgets or plans, uses of budgetary or planning data and suggestions for improvement were consolidated to determine which specific area solicited the most responses.

The highest number of responses was obtained in the reasons why companies budget (25%) and sources of budget value (26%). These categories were followed by problems with budgets (17%) and uses of budget data (18%). The lowest number of responses (12%) was obtained for suggestions for process changes or improvements.

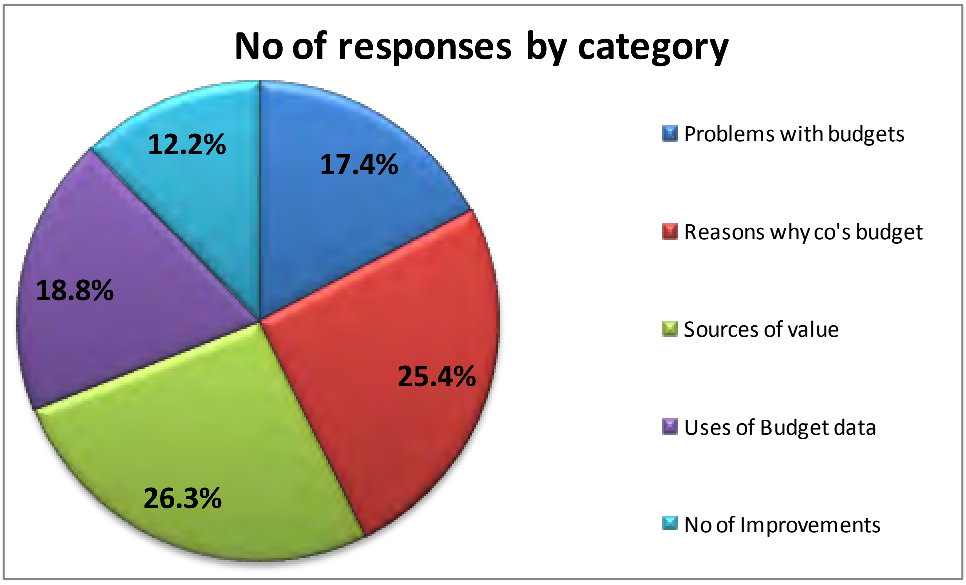

Chart 6-1 Overall responses by respondents

Responses from participants varied between those one who highly favoured budgeting as a process for its value beyond mere variance analysis to the other extreme where a participant linked budgeting and stringent variance analysis to negative behaviour in actual spending. The participant who favours budgeting's views on the value of budgeting can be summarised in the following quotes: *"So the value for me is that it will continue to drive us to do the right things, not to achieve a number; the number will follow if you do the right things." " I guess that is the value of a budget and of course stretching people, setting milestones, developing people because you force them to think outside their comfort zone when you stretch them in the budget. Obviously it must be obtainable and reachable, you don't want to tire people by giving them budgets that are not obtainable"*.

One of the most insightful comments places a new perspective on what a budget is. "*Every budget is simply a reflection of an operational area or* *function. The number is simply a representation of what is happening and I think that is the value of it."* It highlights that the budget is not some mythical creature but rather simply is a numerical representation of a part of the business. The numbers and variances represent a snapshot of what is happening in that area of the business and assists management in taking corrective action if required.

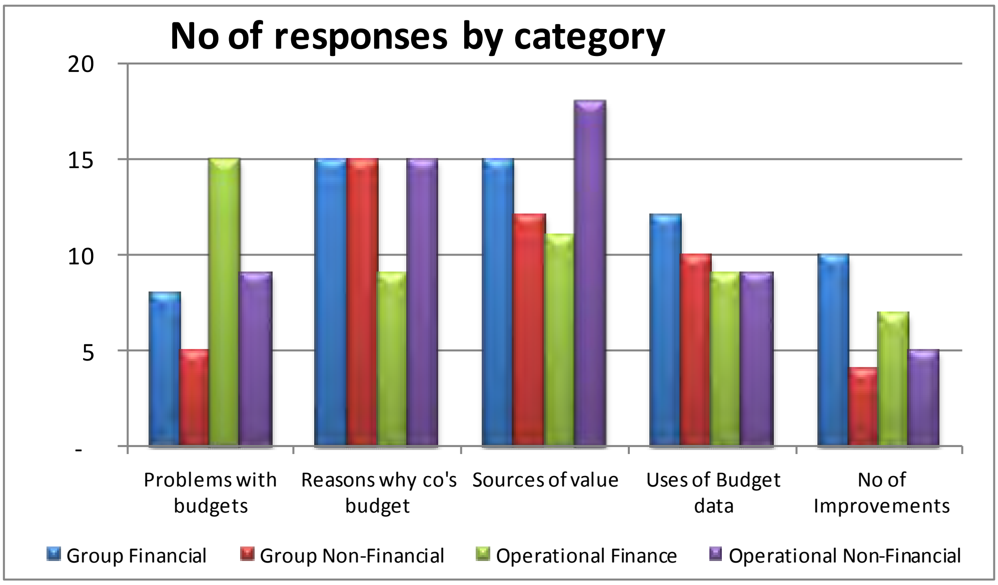

Chart 6-2 Number of responses by category by respondent grouping

Each of the response categories will be reviewed in terms of the relevant propositions further down, but it is interesting to note that the highest level of responses (18) come from the operational non-financial participant grouping. Additionally, this grouping was one of the highest responding groups with reasons why companies prepare budgets (15). The operational finance respondents are the most negative about budgeting, with their highest response count (15) being around budgeting problems.

Operational managers listed more problems with budgets than group managers did. In contrast, group managers gave more reasons why companies budget, uses of budget data and more proposed improvements than operational managers. For group managers they gave 1.5 to 2 times more responses to the positive questions on budgets which the ratio for operational managers is only equal or 1.2 times. The high rate of budget problems is driven operational finance participant group.

The responses of the finance participant grouping were more negative than those of the non-finance grouping except in the area of uses of budget data where the response rates were similar.

The results reflect that while the positive aspects of budgeting received the most responses, financial participants are more negative about budgets and budgeting than their non-financial counterparts.

6.2 Results discussion proposition 1: SA companies follow the same practices and processes as their international counterparts

The review of related literature showed that companies are changing their budgetary practices to address shortcomings and negative behaviours. In their 2003 research, Hansen, Otley and Van der Stede found two distinct practice-led schools of thought. The former advocating the improvement of the budgeting process through activity based budgeting in this case and the second the Beyond budgeting round table, promoting the abandonment of budgets entirely in favour of decentralised control and empowerment.

Further budgetary enhancements were summarised by CIMA and Ross in 2008 in the Topic Gateway on budgeting and included; Rolling forecasts or continuous budgeting, budget flexing and zero-based budgeting. Finally, another key area where a significant quantity of research has been undertaken is in the area of participative budgeting. This research found that managers' support for budget targets and job performance increased if they were part of the process which set the targets and if they perceived the process to be fair. (Fisher Frederickson and Peffer, 2000; Davis DeZoort and Kopp, 2006; Hansen *et al*, 2003; Jensen, 2003).

In order to set the base and understand a participant's frame of reference, the summary in chart 5-8 summarised the prevalence of different plan types in participant responses. The results reflect that all participants are exposed to preparing budgets and this is followed by strategic planning (75%) and monthly forecasts (56.3%) are the most prevalent. The least prevalent is bi-monthly forecasts which account for only 6.3% of the responses. Only 25% of respondents report not forecasting at all. Also reflected is that 87% of participants prepare some form of forecast, the weekly forecasts have been excluded as the participants concerned prepare both monthly and weekly forecasts. Monthly forecasts are done by 56% of participants, with 13% of participants preparing weekly forecasts in addition to the monthly ones for specific line items. One company representing 25% of participants prepares quarterly forecasts but provides a detailed monthly forecast by stock keeping unit of expected sales performance.

All respondents confirmed that budgets are prepared annually in their organisations but did note differing degrees of importance attached to the figures. The continuum varies between one organisation that does not change targets for the year at all as reflected by the following quotation; *"We do (prepare plans) once a year and even in a very tough year like we are in at the moment, we will do some estimates and some assessments of where we believe we will end up, but we don't change the plan"* , to another where the budget is merely the first, more detailed forecast for the year as reflected by this quotation; *"But then the budget is certainly in my view and I think broadly speaking in the company, what is the budget? – it is best estimate at a point in time, it can be nothing else. So we don't then go in for massive re-budgeting exercises"*.

The review of budget methodologies in place highlighted the most popular methods of preparing budgets are a participative budgeting method followed by bottom up / top down approaches, market driven forecasts and the application of strategic plans in preparing data. The substantial impact of the current economic challenges has contributed to the increased use of and importance of forecasts. It has also contributed to the relaxation of the budget as the only performance target for the year. Four of the 16 participants refer the using zero-based methodologies in preparing their budgets. Two participants specifically mention using zero-based budgeting techniques in conjunction with a review of prior year actual. This represents a departure from the classic definition of zero-based budgeting, where all expenditures are re-justified every year. The term "budget flexing" was used by one participant in the context of variance explanation rather than the changing the budget targets in response to changes sales, costs or revenues per unit (CIMA and Ross, 2008). Six participants reported that in exceptional circumstances and with significant justification the targets for the year can be changed from the budget to a forecast but two of the participants specifically noted that targets for incentive payouts do not change. The remaining three participants whose organisations prepare forecasts do not restate targets. The majority of participants refer to using external or centrally provided data in preparing their plans. It is clear that some confusion exists in participants minds regarding the true definitions of zero-based budgeting and budget flexing. Activity based budgeting, dispensing with budgets and strategic budgeting were not discussed by the participants.

Operational managers provided more detailed responses regarding budget methodologies with bottom-up/top-down, participative and market forecast driven planning all achieving a response rate above 80%. This is in contrast to group managers whose highest response rate was for participative budgeting and that only reached 60%. The same comparison done for financial vs. non-financial respondents' shows that financial respondents' response rate for participative budgeting is at 88%, driven by a 100% response rate by group financial respondents and a 75% response rate from operational finance participants. Non-financial respondents lead the way over their finance counterparts in the strategy links, market forecast driven and KPI methodologies. This shows that non-financial participants have a more diversified view of budget methodology.

Contrary to expectations, no significant changes have been made to planning processes in the last three years by respondents with 13% reporting no changes at all. Process improvements have been the core area of focus rather than process changes. (Chart 5-10). In future, process changes will remain the key focus for budget improvement with 38% of participants expecting to improve their budget processes in the next two years. Process changes are forecasted by 25% of participants which encompass in one extreme case, changing the organisational structure to improve communication and collaboration. The remaining changes cover IT system changes to improve data availability and granularity and that forecasting become increasingly important.

There are no significant differences in the responses between group and operational respondents and financial vs. non-financial respondents with respect to past or planned budget process changes. The main difference is that operational managers report higher levels of process change both in the recent past and planned for the near future.

In terms of proposition number 1, it has been confirmed that South African managers follow the same practices and processes as their international counterparts except for activity-based budgeting, strategic budgets dispensing with budgets and budget flexing.

Strategic budgeting and dispensing with budgets are specialised methodologies are would not be in common use internationally. The key case study for dispensing with budgets is a bank and would not apply in a manufacturing environment.

The implications for business are that the current economic instability will continue to increase the need for regular forecast updates by business. This will place a workload burden on companies. In the light of senior management commitments to shareholders around profitability through budgets, it is expected that forecasts will remain informational and will only change budget targets in very exceptional circumstances.

6.3 Results discussion proposition 2: SA companies have the same problems with budgets and plans as their international counterparts

Budget problems or lack thereof are linked to the perception of value that budgeting provides to an organisation are 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.

The investigation into budget gaming was part of the general question around problems found with budgeting. Participants were encouraged to give their opinions on budget problems before being prompted with specific questions around budget gaming. Separate questions specifically investigating cycle times were also raised and are discussed separately below in section 6.3.1. The results of the questions around budget problems were varied with 25% of respondents listing no problems and an equal number listing three to four problems. The differences between the numbers of problems listed both before and after prompting reflect the degree of underlying budgetary or planning problems. In the results 56% of problems were reported prior to prompting the respondents. 44% of respondents added no additional problems after being prompted, which 25% of respondents added an additional 1 to 2 and 3 to 4 respectively. There are significant differences in the total number problems listed by finance and non-financial managers. 40% of financial manager's highlighted 3 – 4 problems the same proportion of operational managers raised no problems. This shows that financial managers experience more problems with budgets than operational ones. It is interesting to note that this difference only arises after participants have been prompted by the interviewer. Group vs. operational managers also have different views on problems with budgets with 40% of group managers listing no budgetary problems while the responses for operational managers are evenly distributed across the number ranges. Once again the divergence in the results became significant with problems reported after the participants were prompted by the interviewer. Thus both operational and financial managers are only reminded of problems when prompted leading to the conclusion that they are not as pressing as the problems listed prior to being prompted.

In the detailed analysis of problems reported by respondents; representing the proportion of total problem responses given by all participants, 27% of all problems mentioned relate to misalignment or a lack of alignment as a problem. Although sandbagging was the second most prevalent problem with 14% of respondents confirming it happens, all respondents stressed that the problem was not significant. One particular respondent summarised the situation as follows: "*I think the biggest problem we have is building in cream and I don't think it is a deliberate ploy, I don't think it is a problem per se where someone says I don't like this process and I am going to do this. I think it is a natural human reaction to say 'I need a bit of an umbrella here'*". Another respondent stated that since incentives were no longer based on budget performance, the problem had diminished totally. The most aggressive response was from a respondent who stated people would be fired if caught out playing budget games.

The remaining problems are listed in descending order of prevalence; negative behaviours around actual spending as a result of stringent variance analysis (11%), process inefficiency (11%), markets move on and budgets are rapidly outdated (11%), a lack of communication, indistinct approval authority and a lack of appreciation of the value of budgets by non-financial people (8%), excessive detail in data (8%), implications of iterative budgeting (5%) and timelines, specifically capital planning timelines, being out of sync with budgeting timelines (5%). It is interesting to note that the classical differences between finance and non-financial managers come to the fore when problems are discussed. While both grouping list problems with a lack of alignment as their key concern, financial managers list problems with sandbagging and actual expenses as problems while the non-financial managers do not. Similarly non-financial managers complain about excessive detail and misaligned timelines, their financial colleagues do not. The results of the study partially support the findings by Libby and Lindsay (2007) that budget gaming behaviour exists but is not a significant problem. Unlike the American study, no managers in current research listed any budget gaming problems as significant.

Companies need to take cognisance of the fact that a lack of alignment is the most prevalent. This lack of alignment is found in problems with top-down / bottom-up methodologies, a lack of buy-in by managers to central changes and a lack of clear expectations from management around budgetary KPI expectations prior to the process starting. It seems that South African group managers naively hope that results from a bottom-up budget will be better than shareholders' expect. These type of problems can be resolved by paying careful attention to participative budgeting principles, discussed in depth in the literature review.

6.3.1 Time invested, budget inflexibility and incorrect data

An area of criticism against budgeting is that the systems used are highly manual (Centage /IOMA, 2007), time consuming and prone to error (Libby and Lindsay, 2007). The local findings concur with the Centage/IOMA study that Excel is the most frequently utilised system for planning and budgeting at 75%. The use of SAP/ERP solutions is running a close second at 63% with other custom systems at 38%. Multi-dimensional cubing accounts for 6% of the systems used. One respondent did not mention any systems used, in spite of repeated probing by the interviewer. The reason for this lack of response is linked to the senior management role held by the participant and that they would not be involved in any form of budget or plan preparation work. The finding holds true for both non-financial and operational response groups. Group and financial response groups however, report the highest usage of custom systems, in addition to extensive use of Excel models. This results from group operations using budget consolidation systems for reporting and review.

A second problem area that would detract from the value of budgets and planning is the time spent preparing the plans. Research in 2005 found that the overall budget cycle took 10.3 weeks (2.6 months), while a manager would spend 2 – 3 weeks working on budgets (0.6 months) (Libby and Lindsay, 2007). The research done by Centage/IOMA in 2007 confirms an overall budget cycle time of 4 – 8 weeks.

Local results reported an overall cycle time of 3 to 4 months with 6% of respondents reporting an total budget cycle time in excess of 6 months. This is significantly higher than their American counterparts. It must be noted that around 25% of participants did not supply an overall cycle time and their results were estimated using the data supplied by the other respondents from the same company. Overall cycle times showed limited variation between group and operational managers. The result comparison between financial and non-financial managers also showed limited variation.

In line with the American research, the actual time the majority of participants are involved with budgeting is 1 to 2 months. Only 13% of respondents report a budget involvement level that is equivalent to the American results. 25% of respondents reported being involved in budgeting for 2 to 3 months, which is as long as the overall cycle time reported in the Libby and Lindsay study (2007). When the results for finance vs. non-finance managers are compared to the total survey, no significant variances have been found in participant budget cycle times. It was found that group managers reported a fairly even split of responses for participant cycle times of 1 to 2 months and 2 to 3 months. More than 70% of operational managers on the other hand, reported a cycle time of 1 to 2 months. This leads to the conclusion that group level managers are more involved in budgeting, over a longer timeframe than operational managers.

Participants were not asked to comment on the level of error occurring in their budgets or plans.

It is interesting to note that in spite of the prevalence of manual budgeting system and longer cycle times than the American study, 11% of respondents listed inefficiency as a budget problem. One finance director however did comment as follows on the amount of time spent on budgeting; "*I would like the guys, the budgeting process to be less disruptive. If I am going to change anything it is going to be to streamline it, make it easier and quicker so the guys can keep focusing on the real business.* ". An operations manager's view of the time spent budgeting and planning is the following:

"*We don't have a lot of resources and most of the resources are used in strategy and planning and budgeting process are some of your technical people; and they are very tied to the process and that is a big constraint, availability of technical resources to use to support budgeting, reporting and explanations and all that*".

6.3.2 Budget gaming – problems caused by linking budgets to incentives and rewards

In 2005, 212 members of the Institute of Management Accountants, working in the USA, completed a survey on budgeting. The survey found managers strongly believed that "budgets are indispensable" but were subject to criticism. The results of this study further show that while managers agree that budget gaming occurs occasionally it is not a significant problem. The results of this study refute the view that is a significant problem by Hope and Fraser (2003a), (Libby and Lindsay, 2007). Budget gaming 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).

As discussed above with the overall findings around budget problems, is that while budget gaming is present in South African manufacturing companies it is not a significant problem. The group finance director of one of the responding companies reports that they have shifted the targets for the payments for incentives away from budgetary targets to multi-year targets and performance over prior year. Two participants of another company list that internal procedures form a natural barrier to sandbagging as the factory will only produce in line with your budget or forecast, so under-forecasting is discouraged. Over-forecasting is discouraged through the significant hurdles that exist to reducing your forecast and forecast accuracy being a key metric.

Contrary to the view in the literature, the participant who is highly complementary about budget and planning processes has a team that is significantly remunerated based on achieving budgetary targets; *"...we have in the past three years, 2008 and 2007 we have beat our budget on the bottom line but with 10%. Last year we beat the budget on the bottom line with 8%. So it is not that we doubled our budget, we are fairly accurate in terms of what we forecast ...*" .This same manager however exhibits strong people skills with highly participative budgetary processes. The respondent refers to themselves as follows; " *it is not just me making plans, it is discussing with team members and being a mirror to them and bouncing ideas and playing with numbers and 'if we do this what is the effect'. I would say modelling and scenario planning*."

6.3.3 Lack of alignment between company strategy and budgets

Budget gaming, the inflexibility of budget data and a disconnect between finance and operations during budgeting are key drivers of the lack of alignment between strategy and budgets Cokins' (2008).

In terms of the alignment between their strategic planning and budgeting processes; 44% of respondents reported that there is a link between their strategic planning and budgeting processes, a further 31% of respondents reported that the cycles were separate and the remaining 25% did not comment on strategic planning.

A lack of alignment between strategy and budgets was not raised as a problem by respondents. The fact that almost half of the respondents follow a process that reviews the strategy as part of the budgeting process will support alignment between the two. Two respondents from one company reported that any misalignment between strategy and the budget will be corrected in the short term; "*either the budget/forecast will change or the strategy will*".

6.3.4 Lack of operational alignment

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.

In total there were four responses to this question. One listed that the organisational culture and the culture of collaboration around business optimisation supported organisational alignment. The other three responses were problems that related to misalignment and a lack of buy-in in the process of management adjustments to budgets proposed, already discussed as part of the overall analysis of budget problems. One participant listed the following potential solution to the problems listed above; "*I think people should try to listen and put themselves in a different position and listen to what the person really is asking for. If operations guys are asking for this maintenance money or for new production equipment, try to understand (the reasons why) before you just do something*".

6.3.5 Findings and implications for business

The review of results for proposition 1 above confirms an increase in forecasts and forecasting. Business needs to guard against this becoming an unnecessary drain on resources as international research shows this to be a value-destroying element in budgets and planning.

The finding is that proposition number 2 was not found to be true, except for the results on budget gaming not being a significant problem. Participative budgeting processes are the area where local managers need to focus efforts as misalignment (27%) was the most frequently mentioned problem. Misalignment and iterative planning are related problems and thus the combined problem frequency increases to 39%.

6.4 Results discussion proposition 3: SA companies budget for the same reasons as their international counterparts

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. (Hansen and van der Stede, 2004). In the study in which 720 American members of the Institute of management accountants ranked budget usefulness in supporting eight business objectives, Shastri and Stout (2008) found that; Operational control, Resource or operational planning, communication or providing a roadmap, a base for determining rewards, support of strategic planning objectives, as a motivational tool for employees, cross functional teamwork and co-ordination, were rated as very useful or useful by more than 50% of the respondents.

Although the reasons provided by local respondents to the question of why companies budget or plan were phrased differently, in essence they support the findings of both of the referenced studies. It is interesting to note that in addition to the findings above, 6% of respondents cited budgeting as a tool to improve shareholder value, while another 4% reported budgeting as a tool to support communication with shareholders. The results financial vs. non-financial managers differ in the following three key areas where more finance managers than non-finance managers list defining a roadmap, a tool for performance review or measuring progress and management control as reasons for budgeting and planning. Group and operational managers agree that defining a roadmap is a key reason for budgeting and planning. More operational managers than group managers listed this reason for planning. Group managers highlighted performance measurement and management control more than the combined research results but while performance measure was important to operational managers, they also listed improving shareholder value, communication, long term investment planning and business review as important reasons for budgeting and planning.

The findings are in support of proposition 3 that South African companies budget for the same reasons as their international counterparts.

South African companies need to be alert to the non-financial reasons that operational managers deem budgets necessary and ensure that in the pursuit of efficiencies and more information, this value is not lost. The most interesting finding is the operational view that budgets and forecasts force a discipline of business and market review as an input to the business strategy review. This review is also the “sense-check” for the operation of the likelihood of them achieving the committed budgets for forecasts. The follow quote from a group finance participant is interesting in that they believes that budgets are no more than your best estimate at a point in time, understands the rationale from operations around the value of the business review; “*we* *try and say to the guys the budget is an indicator that you operating units have applied your mind to where you are taking the business; that is more important. It is the process you have been through that is more important than the actual number. Yeah, so that is really the indicator and then we spend more time at the board meeting understanding the assumptions and underlying strategies and approaches – where they are going, what they are doing, than nit-picking whether the turnover increase should be 10% or 11%. We have very little debate at that sort of nitpicky level.*".

6.5 Results discussion proposition 4: SA companies define value in the same way as their international counterparts

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.

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. (Bourne, 2004).

A key research objective was to understand how participants define value derived from budgeting and planning. To ensure this was achieved, participants were not prompted in any way with regard to the drivers of the value derived from budgeting and planning. The questionnaire approached the concept of value from three directions. Firstly participants were asked if they believed the planning process in their organisation and why. Secondly they were asked what they use budget data for. Thirdly the question of how budgets added value to the respondent personally in their work role and finally participants were asked how they would change planning for their organisation if they were given complete authority and freedom. The final question was purposely left vague to allow participants the room to respond if they felt budgets should be stopped in favour of some other methodology.

There was a significant repetition of responses and confusion from the two questions asking about overall company value from budgeting and respondent specific budget value add experiences. The interview methodology was amended only asking the first more generic question of whether budgets add value or not.

All of the responses with the exception of two listed positive reasons how budgets add value. It must be noted however that in the results, two participants specifically noted that budget value was limited as figures are outdated quickly as a result of rapid changes in the market place. One participant expressed their view as follows; *"That is ridiculous, and we do our cost forecasts on an oil price in six months before we finalise our plans. Your assumptions are totally out of date by that time*."

The results for both sources of budget value and the uses of budget data are very similar. The results analysis will thus focus on the results of sources of budget value.

The results to this question were very varied with only two sources of value getting more than 10% of responses. These are measuring progress and performance review and defining a detailed roadmap, gaining 20% and 11% of the responses respectively. Other responses cover the broad themes of management, control and performance measurements. A source of strategic information for advance planning, strategic alignment and course correction through forced business, market and customer reviews. Another key theme is business alignment behind a single goal, which is expressed as diving alignment, driving the right behaviours, a defined detailed roadmap and keeping focus on targets. Three findings that are interesting although gaining limited mention are budgets add value by being a tool that allocates funds in the business, a numeric summary of the business strategy and a source of long term trend review. It is noted that there is a significant overlap between the sources of budget value and the reasons companies prepare budgets.

Performance measurement and review, predictably, is a strong source of value with no one of the respondent groupings having less than 10% of its responses related to this item. The practical nature of the operational finance grouping (chart 5-23) is clear in that their three highest response rates relate to taking corrective and pre-emptive action, measure progress and performance review and management and control. The responses of the group non-financial respondent grouping were more strategic in nature. They value progress measurement and performance management most highly (25%) but there is a fairly even response rate of around 17% for a defined detailed roadmap, driving alignment and a source of long term planning and course correction. The responses of the group financial and operational non-financial groupings were more balanced in their responses with only the performance measurement response for the non-financial operational grouping exceeding 15%. It is interesting to note that the operational non-financial respondents were also more strategic in their responses to drivers of value; benchmarking, defined detailed roadmap and long term planning and course correction. The more strategic nature of the responses from the operational groups would link to the fact that they traditionally handle capital expenditure planning which requires a longer term, more strategic view. It is thus not surprising that the mentioned categories are of value to these respondents.

When the responses of the group vs. the operational managers is compared, operational managers placed more emphasis the defined detailed roadmap and benchmarking than their group counterparts. Similarly, group respondents rated performance review, driving alignment and long term planning as more important than their operational colleagues.

When the same comparison is done between financial and non financial managers, similar gaps in importance arise. Non-financial managers value a defined roadmap, long term planning and course correction, benchmarking and driving the right behaviour more highly than their financial colleagues. The opposite applies to corrective or pre-emptive action, enforced business review and management and control which are more highly valued by the financial managers.

The findings for proposition 4 are not confirmed when measured against the literature found on the definition of budget value except for long term planning and business reviews which would drive a future focus. It is very significant though that the drivers of value in the minds of the respondents are closely aligned to the reasons why companies budget and the findings of the study by Shastri and Stout into the very useful and useful functions of budgets. South African managers are more practical their measure of value from budgeting and planning than the international literature would suggest.

It is clear from the budgets add value as this category elicited the highest number of responses, namely 56 out of a total of 213. South African managers are not advised to blindly follow the global view on the drivers of value from budgeting and planning. They are advised to seek out those measures that align to the internal drivers of value in their organisations. E.g. budget gaming behaviour has not been identified as a major problem by the study, thus there is little value to a company from implementing a remuneration scheme linked to external benchmarks to address potential budget gaming behaviour. On the other hand, where a business wants to drive an ongoing outward-looking view in its management, the implementation of that type of remuneration scheme will add value. Two of the value drivers highlighted by Bourne in 2004 as drivers of value, namely, IT systems that are a single source of truth and separate forecasting models would be of value as they would address the problems of manual work with budgets and forecasts.

6.6 Research Limitations

This research was specifically explorative in nature and thus the sample size was not statistically significant.

It is acknowledged that the focus on the manufacturing industry created the risk of sample bias and that the results could not be directly relevant to the total population of managers in South Africa. A potential finance professional sample bias was inadvertently introduced in the report as a result of 25% of operational managers interviewed having financial qualifications and previously having filled financial roles. In addition, the face-to-face nature of the interviews and the fact that they were recorded potentially prevented participants from freely speaking their minds.

A second source of bias in results could relate to the proximity of the current financial crisis. It is possible that manager's responses were based on their most recent experiences which would have been clouded by the significant negative effects on business in South Africa. It is suggested that this research be repeated at some time in the future once markets have stabilised from the current crisis.

Chapter 7 Conclusion.

7.1 Findings and recommendations

Historically budgets have been seen as an indispensible control mechanism for businesses. Both the business and academic press continue to report on problems related to budgeting. This research report investigated whether or not local managers and finance practitioners believe that budgets add value to South African manufacturing companies through assessing:

- current budget processes and practices,
- problems experienced in the budgeting process,
- reasons for budgeting, and
- management definitions of value derived from budgeting.

All of the aforementioned are influencing factors on whether or not an individual perceives budgeting to add value.

A gap in previous research was that investigations were limited to finance practitioners and have excluded non-financial participants in the process. This led to the question as to whether or not all problems or corporate value from budgets have been identified. This study investigated the experiences and views of non-financial managers in addition to those of finance professionals. In order to minimise the risk of a finance-view bias in the research, Qualitative research, in the form of semi-structured expert interviews (Zikmund (2003) refers to depth interviews) was undertaken.

The research was expected to show that the views of South African managers are no different to those of their international counterparts. It was further expected that negative budget behaviour and gaming would be a problem in line with views of the proponents of Beyond Budgeting.

While the actual results have met the initial expectations to some extent, there have been some surprises along the way. While South African managers follow the same budget processes and procedures as their international counterparts, they do not suffer from the same problems that they do. There are some areas where management action is recommended. Firstly, participative budgeting needs to be improved in order to address the problems of misalignment that were found in the research. This would reduce the iterative cycles in planning and budgeting and would improve efficiency. Secondly, both overall and management participation in budget cycle times are significantly higher than their international counterparts. It is recommended that companies review their budget processes to shorten them, a direct benefit of this would be that cost forecasts would be made much closer to the budget period and have an increased likelihood of being accurate. One area that would benefit from the review is the level detail in which plans are developed. This particularly applies to costs that represent less than 20% of an organisations' cost base. In the current economic climate, markets move significantly more frequently than in the past. This leaves budget data less relevant than in the past. Any time saved in the process would free up resources to understand and review the strategy in more detail than is currently the case through a detailed customer, market a business review when the old budget cycle used to start.

The study confirmed that South African manager's budget for the same reasons as their international counterparts. It was surprising to find that South African managers have a far practical approach to defining budget value and have different views to their international counterparts. It was also confirmed that the process is valuable in a wider context than the strictly financial one.

The most surprising finding has been that financial managers are more negative towards budgeting and planning than operational managers. Operational finance managers in particular, are the most negative group. When the responses are operational finance managers are reviewed, it becomes clear that their main focus is in terms of management, control and performance management. Their responses in terms of the more strategic non-financial benefits seen by operational non-financial managers highlight this fact. In this context two of the most interesting responses have been that budgets are a tool to force regular business, market and customer review. Even in organisations where forecasts are not done, the value of this exercise cannot be underestimated. This would form a key input factor for updating strategy. With their significant business knowledge, financial skills and training, operational finance managers are well placed to assist their operational managers with this. Available free time for these managers could be engineered through reducing the frequency, detail level and granularity of variance analysis and forecasts, particularly when it comes operating expenses that contribute less than 20% of an organisation's overall cost base. This would enable operational finance managers to become more involved with the company strategies which would further assist with a realistic view of shareholder expectations at an operational level. As operational finance managers, assist their operational managers to prepare budgets, pre-emptive budget adjustments could be made prior to submission to group level. This would reduce the number of iterations and would support increased budgetary alignment which was called out as a key problem.

In the final analysis, South African managers, find budgeting and planning valuable processes, particularly if the problems related alignment could be resolved.

7.2 <u>Suggestions for future research</u>

This research was specifically explorative in nature and thus the sample size was not statistically significant. It is recommended that any follow-up research be undertaken as an electronic questionnaire to encourage managers to be totally open and honest but to also increase the sample size to make the results statistically significant.. Free form text boxes, combined with more generalised questions would allow for the collection of some additional insights from respondents. Secondly, it is further recommended that any future research is conducted with the support of the relevant professional institutes to encourage companies to participate.

A source of bias in the results could potentially relate to the proximity of the current financial crisis. It is possible that manager's responses were based on their most recent experiences which would have been clouded by the significant negative effects on business in South Africa. It is suggested that this research be repeated at some time in the future once markets have stabilised from the current crisis.

A potential topic for future research is to assess whether the experiences of managers in service industries are the same as those in the manufacturing sector. A further question for investigation would be whether or not organisational tenure has any impact on managers' views. Finally, this report focussed on senior (group) level managers and middle (operational) managers. The question arises whether the views of more junior managers would differ from those managers interviewed in the report.

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Appendices:

<u>Appendix 1 – Structured interview guide</u>

Date: ________________

Participant Code Number: _________________________

Company Code Number: _________________________

Audio Recording Number: _________________________

Interview Prompt Sheet	Covered in Interview ✓

Demographic Data
Please tell me about your career and qualifications:
• Academic qualification
• Qualification type
• Current Role
• Length of experience
  • Current role
  • Current organisation
  • Previous roles	

1. Processes of executing budgets in SA Companies • Please explain the budgeting or planning process in your company to me? • What types of budgets or plans are prepared by your company and by you in your role? • How frequently are plans or budgets prepared? • What systems are used to prepare budgets or plans? • To what level of detail is data collected and does this differ for different types of plans or budget? • How much time is spent preparing plans or budgets? • Have any changes been made to the way your company plans or budgets in the last three years? • Are any changes to the budgeting process planned for the	

Interview Prompt Sheet	Covered in Interview ✓
near future?	
2. Highlight specific problems in budgeting in SA Companies • Have you experienced any problems with budgets or plans in your company? Please elaborate. Additional prompts if required: • Time invested, tools used and inflexibility of figures • Budget gaming behaviour – Sandbagging, “taking a bath”, deferring expenses, Pipeline filling etc. • Lack of strategic alignment • Lack of operational alignment • What causes the problem/s? • What could be done to fix the problem/s?	
3. Why do companies budget? What value do they gain? • Why do companies prepare plans or budgets?	
4. Value defined? • Do you believe the budgeting or planning process in your organisation adds value ? Why and how ? • What do you use budget data for? • How do budgets add value to you ? • What would you change to budgeting and the process if you could?	
Interviewer Notes:	

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Appendix 2 – Research Consent Form

GORDON INSTITUTE
OF BUSINESS SCIENCE
University of Pretoria

MBA 2008/2009

A research proposal in partial fulfilment of the Gibs MBA degree requirements

Research Participation Consent Form:

I am conducting research into management perceptions of how budgets add value in South African Manufacturing companies. I am also investigating whether the views of finance and non-finance manager differ and whether seniority level affects perceptions. This will help us understand the views of SA managers to budgets and budgeting and allow us to compare the results to other international research on the subject.

Our discussion will not last more than an hour and will be recorded to allow for thorough data-analysis afterwards. Your participation is voluntary and you can withdraw at any time without penalty.

All individual responses and data will be kept confidential and if you have any questions or concerns, please contact me or my supervisor.

Contact details:

Researcher:	**Supervisor:**
Name: Joan King	Name: Max Mackenzie
Email: joaking@afr.ko.com	Email: Max.Mackenzie@wits.ac.za
Telephone number: 082 463 4975	Telephone number: 082 551 6823

Participant Signature:____

Date: ____

Signature of Researcher:____

Date: ____