The Importance of Operational Reasons to Budget for Two Budget Forms, and their Relationship to Organisational Characteristics

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A thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy

2007

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Certificate of Authorship/Originality

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Signature of Candidate

Prabhu Sivabalan
Acknowledgements

The completion of a doctoral degree is one which cannot be accomplished alone, and I have so many in my personal and work life to thank for having done so. First of all, my gratitude goes to my beloved Baba, who guided me through the whole process, and is the reason I had the strength to embark, attempt and complete this thesis.

Second is my late father Sivabalan Gurusamy. My father is a source of great inspiration and love to me. His calm, quiet and insightful personality has always reminded me of the power of rational thinking, and his management of difficulty with humour and acceptance certainly helped me through the tougher times of my thesis. To my dear Appa, you are always in my thoughts and I will never forget you, I love you very much.

My mother has been a constant source of inspiration to me. I have always drawn solace from the thought that if she could achieve everything she has in her life, then I could certainly complete a PhD thesis. For all your love, support and guidance, thank you for everything, my beautiful Amma. Of course, my brothers, Ramesh, Sathah and Sudhagar have been equally supportive, and my love and thanks go to them too.

Third is my beautiful wife Kirti, who is my strength and bedrock of confidence. Her ability to tolerate and encourage me through what has been a very career focused period of my life has required many sacrifices on her part, and I would not have been able to complete this thesis without her love and support.

My uncle, Associate Professor Siva Muthaly inspired me to pursue a path in academia, and is one of the main reasons I am working in a profession that I dearly love. He is a wonderful human being, and a constant source of inspiration to all around him. To my dear Assai, thanks for your love and support, I love you very much!

To all my colleagues in the School of Accounting, thank you for putting up with a sometimes stressed PhD candidate! For your patience, guidance and support, I thank you most dearly. You are more dear friends than work colleagues to me.

Associate Professor Bernhard Wieder assisted me through the beginning stages of my PhD, and was always ready to lend a hand, when my thinking was uncertain! Bernie, thanks for all your time, guidance and support, I am very grateful for all you have done for me.

Professor Teemu Malmi was a constant source of inspiration to me in completing this thesis. His continual guidance and patience is a lesson to me, when I hopefully have the opportunity to supervise other research students. He always challenged me to think functionally, and to consider the practical value-add underlying everything I attempted in my thesis. Teemu, I would not have been able to complete this thesis without you.
Finally, Professor Peter Booth. Peter is one of the most incredibly generous human beings I know. His ability to smile and say “you’re going well” even after a meeting where my drafts were heavily critiqued are testament to his patience, understanding and good nature. He is an incredibly thorough and meticulous supervisor, who leaves no theoretical or grammatical stone unturned! Peter, this thesis has been completed in no small part due to your guidance and support, and I will always remember our PhD meetings – I don’t think I learned and developed my research any better, than during our discussions!

Finally, if I have missed anyone, please accept my apologies, and know that I am grateful for your assistance. May I finish my acknowledgements by saying that all merit relating to this PhD are because of the above individuals, and any omission or error in the thesis is wholly my doing!

Prabhu Sivabalan
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Abstract

This thesis investigates a range of operational reasons to budget, their relation to the fixed budget and rolling forecast forms, and their relationships with selected organisational characteristics. Notwithstanding repeated practitioner and academic criticisms of budgeting, budgets appear to be used by most organisations. Why do organisations continue to budget, if budgets are repeatedly criticised? Prior research has suggested that most budget research, and budget criticisms relate to a budget’s use for performance evaluation. Following Hansen and Van der Stede (2004), this thesis argues that the disconnect between the high use, and low perceived usefulness of budgeting in practice may be explained by considering the impact of other non-evaluation operational reasons to budget used in practice. This rationale is investigated through three inter-related studies, using a combination of quantitative cross-sectional survey and qualitative case data.

The first study investigates the importance of ten operational reasons to budget, for the fixed budget and rolling forecast forms. Findings show that organisations conduct budgeting for a range of reasons, and that non-evaluation operational reasons to budget such as “control costs”, “coordinate resources” and “board of director monitoring” are more important than the “staff evaluation” reason to budget most often studied in existing research. The first study also found that this range of operational reasons to budget were important for both fixed budgets and rolling forecasts.

The second study investigates relationships between the importance of four of the ten operational reasons to budget (coordinate resources, formulate action plans, staff evaluation and business unit evaluation), and three major organisational characteristics (strategy, autonomy and uncertainty) for both budget forms. The four operational reasons to budget were an elaboration of the two broader operational reasons to budget (operational planning and performance evaluation) proposed by Hansen and Van der Stede (2004). Findings show that contingency relationships between the four operational reasons to budget and organisational characteristics are often different to that found in or implied by prior research. Also, in many instances, relationships for the two detailed reasons to budget within each of Hansen and Van der Stede’s (2004) broader reasons and organisational characteristics were different. This supports the need to consider more detailed operational reasons to budget in future budget research.

The final study investigates an organisational setting where a dominant non-evaluation reason to budget had a different contingency relationship to that found in existing budget research. Existing research has argued that in low uncertainty conditions, organisations with a high level of budget emphasis require high budget participation (Lau, et al. 1995). The case organisation operates in low uncertainty conditions, and has high budget emphasis. However, it attained significantly increased budget benefits when it changed from high to low levels of budget participation. The main reason for this difference is that prior research has
conceptualised and measured budget emphasis predominantly from the perspective of a budget’s use for staff evaluation. However, the case organisation primarily uses budgets for resource coordination. Its pattern of budget emphasis is more complex, being low for staff evaluation but high for resource coordination. The case emphasises the need for budget research to consider a range of operational reasons to budget other than staff evaluation, in order to understand the nature of the contingency relationships between organisational characteristics and established budgetary variables such as budget emphasis and participation. Different operational reasons to budget appear to impact the nature of these contingency relationships, and therefore, should be acknowledged in budget research.

Overall, this thesis confirms that a range of operational reasons to budget are regarded as important by organisations, and that reasons such as “coordinating resources” and “formulating action plans” are often more important than staff evaluation, the dominant reason considered in extant budgeting studies. This may impact the nature of contingent relationships found in existing research.