IMPROVED BUDGET ATTAINMENT IN ORGANISATIONS: A HOLISTIC APPROACH

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Abstract

A budget is a broad financial plan setting forth the projected route to achieve the financial and operational goals of an organisation. Budgeting is an important step in effective financial planning. The use of a budgetassists managers in regulating costs by retaining actual costs in consistent with the financial plan. The management accounting literature supports participative budgeting as it provides the employees with a sense of belonging and improves the possibility that they will make larger efforts to attain the organisation's budgetary goals. This study identifies five key drivers that have an impact in achieving an effective budget attainment. The five drivers are: budgetary participation,employees' organisational commitment, information sharing,unambiguous goal setting and reward and recognition. These drivers affect the budget goal commitment positively which in turn helps to ensure an effective budget attainment. Though different researchers used different theories to study the effective budget attainment, this study contemplates the Expectancy Theoryas the most suitable theory to learn the drivers of effective budget attainment in a better way. The research model has been framed based on the above drivers and Expectancy Theory. This model will be further improved and tested among the big marketing organisations in Malaysia. This study will contribute to the society through higher organisational achievements and higher profits being reported by the organisations.

Keywords: Budget attainment, budgetary participation, budget goal commitment, information sharing, reward and recognition

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Introduction

Every organisation prepares budgeted financial statements. A set of budgeted financial statements is usually required by the bankers as one of the supporting documents in approving an organisation's application for a bank loan. Apart from that, the budgeted financial statements work as an important tool to the management of the organisation. It provides employees of all levels with the organisation's goal and direction for the future. When the organisation did not achieve the annual budgeted profit, the management would usually investigate the reasons by performing variance analysis. Variance analysis is performed by comparing the organisation's actual performance with the planned performance. Through variance analysis, areas which required further investigations are highlighted and corrective actions are recommended or taken.

However, budget preparation is an arduous task. Employees from different departments are required to hold meetings after meetings before a set of budgeted financial statements is finalized. Despite the time and effort involved in budget preparation, the budget remains as an important tool to the management. This study aims to investigate the factors which contribute to the success of budget attainment through the increase of employees' budget goal commitment. Five drivers which would positively affect the employees' budget goal commitment had been identified: budgetary participation, employees' organisational commitment, information sharing, unambiguous goal setting and reward and recognition.

Background

Through budget preparation, anorganisation makes plans for the future and employees are given a target or goal to work towards on (Joshi, Al-Mudhaki and Bremser, 2003). On top of that, budget preparation allows better communication and coordination within the organisationas budget preparation process requires employees of different departments to meet up regularly. Thus, budgets which comprises of master budget and budgeted financial statements, remain as an important planning and control tool for the management of the organisation. A master budget contains operational budgets, while budgeted financial statementscontain budgeted income statement andbalance sheet. Operational budget includes sales budget, production budget, purchases of raw material budget, labour budget and etc.

A budget could be prepared on top-down approach or bottom-up approach(Garrison, Noreen, Brewer, Cheng and Yuen, 2012). Top-down approach refers to the budget preparation process whereby the top management sets the budget or target for the middle and lower management to achieve. Bottom-up approach refers to the budget preparation process whereby the lower and middle management prepares the budget for the top management to approve. Bottom up approach is also known as self-imposed budgetingand participative budgeting. It has been argued that the top-down approach would lead to lower employees' budget goal commitment in comparison to bottom-up approach. This, in turn, would result in poor budget attainment. Based on past literatures, employees' budget goal commitment could be improved by allowing employees to participate in the budget setting process; increasing employees' organisational commitment; allowing information sharing between departments; having unambiguous goal setting; and providing adequate reward and recognition.

Bottom-up approach has positive motivational and psychological effect towards employees commitment towards the budget set (Garrison et al., 2012;Sholihin, Pike, Mangena and Li, 2011). Since employees are given a chance to participate in the budget setting, the goal commitment is improved and the employees have greater sense of belonging to the organisation. Besides, participation would also increase the employees' goal acceptance. However, Garrison et al. (2012) recommended the top management to review the budget set to avoid the occurrence of "budgetary slack".

Past studies have also shown that employee'sorganisational commitment and unambiguous goal setting aid in improving budget goal commitment. As stated by Jooand Park (2010), an employee with strong organisational commitment is an employee with strong belief to the organisation's goal and values and the employee will exert extra efforts to contribute to the organisation. Unambiguous goal setting refers to the clarity of goals regardless of the direction of goal setting (i.e., regardless of top-down approach or bottom-up approach). Clear and specific goals which are understood by employees will raise their motivation and thus, brings greater performance (Kenis, 1979; Sholihin, Pike andMangena, 2010).

Information sharing refers to availability of information to other departments which would allow a more realistic and achievable budget to be set; whereas appropriate reward and recognition refers to the reward and recognition system in place in an organisation for its employees. As a result, the information sharing and reward and recognition would improve the budget goal commitment and, in turn, the organisation would enjoy a better budget attainment.

Problem Statement

Plenty of time, effort and money had been spent by organisation's management teams in constructing budgets which had become an annual, half-yearly, quarterly and even monthly routine. However, budget preparation is an arduous task as employees of different departments would be required to meet regularly in drafting and finalising a set of budget. Due to the present challenging and dynamic environment, some management accounting literatures argue on the benefits gained by organisations from the budget preparation process. Information used in setting the budget may not be relevant due to the dynamic changing environment and competition. On top of that, if employees are not committed towards achieving the budget, then budget preparation process would be a total waste of time, effort and money. This study aims to discover the factors in accordance to Expectancy theory of motivation, which could improve employees budget attainment, thus, aiding organisation to achieve what it had planned for.

Budgetary Participation

Budgetary participation, which is also known as bottom-up approach, refers to the budget preparation process whereby the lower and middle management are given the chance to prepare the budget for the top management's approval.Despite the fact that budgets prepared by lower and middle management had to be reviewed and approved by the top management, the lower and middle management is given a chance to be actively involved in the budget setting (Garrison et al., 2012). Besides, during the active participation of budget setting, the lower and middle management have the chance to influence the targets set (Chong and Johnson, 2007).

Some past literatures support budgetary participation as employees would take more initiatives in improving their performance (Groen, Wouters and Wilderom, 2012). Besides, budget or target set by lower management is more reflective as the lower management has clearer perspective of what are achievable given the availability and constraints of resources (Drury, 2008). Since the performance of lower management is evaluated and remunerated based on the budgeted targets or goals, budgetary participation allows a reasonable and achievable goal to be set.On top of that, the budgetary participation would also bring positive impact to employee morale and motivation (Garrison et al., 2012).

However, some past studies have obtained mixed results, for instance, Brownell and McInnes (1986); and Milani (1975).Shields and Young (1993) argued that it is the use of incomplete models which causedthe mixed results. Thus, Shields and Young (1993) suggested other mediating variables to be included in the models formed between budgetary participation and its various outcomes, such as budget attainment.

A recent study conducted by Cheng, Chen and Shih (2014) in Taiwan has concluded thatbudgetary participation would directly improve employees' job satisfaction and improve trusts in upper management. Besides, budgetary participation would also reduce information asymmetry. Cheng et al.

(2014) further added that budgetary participation provides subordinate managers (lower management) a channel to express their opinions to the supervisors (middle and top management).

Employees' Organisational Commitment

Employees' organisational commitment is defined by George and Jones (1999) as cited by Yahya, Ahmad and Fatima (2008) as the employees' feelings and belief towards the organisation they worked in, while SubramaniamandMia (2001) defined employees' organisational commitment as employees' acceptance towards the organisation's goal and how much effort the employees are willing to put in to achieve them. In another words, the higher the employees' organisational commitment, the greater the effort an employee will exert in achieving the organisation's goal.

Employees' organisational commitment is divided to affective (or attitudinal), normative and continuance commitment (Lee, Tan and Javalgi, 2010; Subramaniam and Mia, 2001). Affective commitment refers to employees' psychological attachment to their organisations due to the employees' strong belief and acceptance to the organisation's objectives and values (Weng, McElroy, Morrow and Liu, 2010; Yahya et al., 2008). In other words, employees are loyal to and choose to remain with their organisations because they want to. Normative commitment, on the other hand, refers to the employees' continuous employment with the organisation and continuance commitment associates with the costs of leaving the organisation.

The past studies have indicated that employees'organisational commitment will increase employees' positive attitude, and in turn, improve the employees' performance and productivity. Negative job-related outcomes, such as, absenteeism, late for work and turnover could also be improved with the employees' organisational commitment (Lee et al., 2010; Subramaniamand Mia, 2001). Employees with low organisational commitment usually demonstrate less job satisfaction and have high intention to quit (Lee et al., 2010; Lin and Chang, 2005). High intention to quit not only increases an organisation's turnover and training costs, but it also affects the employees' budget goal commitment. In another words, an employee with high intention to quit will most likely perform only mandatory tasks and demonstrate minimum innovative jobs. The study conducted by Lee et al. (2010) has concluded that normative commitment and innovative job behaviourhave significant inverse relationship; while affective commitment has positive relationship with innovative job behaviour.

Information Sharing

In organisations, there are two different ways in which information can be shared among organisational members: horizontal information sharing and vertical information sharing. According to Hopwood (1976), the sharing of information among organisational members is one of the most significant benefits of budgeting process. Information sharing among organisational members at different levels of management during budgeting process is believed to result in some benefits to both the employees and organisation. In the case of budget discussions, vertical information sharing that concerns both upward information sharing and downward information sharing is particularly important.

Upward information sharing refers to the case where information flows from subordinates to superiors.In another word, it refers to information sharing in the bottom-up budget setting approach. Past researches such as Merchant (1981) and Waller (1988) pointed out that upward sharing of information from subordinates to superiors is particularly essential in the sense that it enables the sharing of private information at the operational level to the superiors. Budget participation encourages upward sharing of information (Parker andKyj, 2006). With frequent discussions on budgeting issues between superiors and subordinates, it will help to increase the likelihood of private information sharing by the subordinates.

Upward information sharing involves basically two parties, namely the principal (who delegates tasks to subordinates) and the agent (the subordinates). The sharing of information from the bottom to the top occurs when the principal successfully acquire the so called private information from the agent. Thus, as a result of budget participation, it may lead to the possibilities of higher quality budgets and better budget attainment via information sharing (for instance, Magner, Welkerand Campbell, 1996; Shields and Shields, 1998). Furthermore, Baiman and Evans (1983); and Penno (1984) suggested that an improvement in both individual and organisational performance can be achieved with the revealing of private information by subordinates in the process of budget participation. However, there is possibility that a subordinate may refuse to disclose or distort the private information due to self-interest. Hopwood (1976) proposed that even though budget participation may lead to sharing of information, the quality and accuracy of the information shared rely very much on the motives of the subordinates. In such a case, organisational commitment may play a vital role in motivating subordinates to disclose the private information fully. For committed individuals, achieving organisational goal is more important as compared to pursuing personal interests (Parker andKyj, 2006). Thus, highly committed employees are more likely to disclose private information during the budget process as they know such information is essential in helping to realize the organisational goals.

On the other hand, when information flows from superiors to subordinates, it is called downward information sharing. In other words, it refers to information sharing in the top-down budget setting approach.The sharing of information from the top to the bottom during budgeting process enables subordinates to obtain more valuable information related to their jobs. This in turn helps subordinates to have a clearer picture about their roles at work (Chenhalland Brownell, 1988). With sufficient job related information gathered among the employees, there may be greater opportunity for budget goal commitment and budget attainment in the organisation.

According to Chalos and Poon (2000), besides vertical information flow, horizontal cross-functional information sharing is equally important in ensuring budget success. The existence of informational asymmetries among cross-functional members due to varying areas of expertise tends to reduce budget performance. To overcome the problem of informational asymmetries, it is suggested that budget meetings should be held on a regular basis to further smooth information flows within the organisation.

Based on the above discussion, it can be concluded that flows of information within organisations during budgeting process would help to improve budget goal commitment and achieve budget attainment eventually by mediating the relationship between budgetary participation and employees' organisational commitment and budget goal commitment.

Unambiguous Goal Setting

Goal is defined as an accomplishment a person is trying to achieve or intend to do (Sholihin et al., 2010). Unambiguous goal setting refers to goals which are clearly stated and understood by the person undertaking to accomplish them (Yuen, 2006). According to Locke andSchweiger (1979) as cited by Cohen andKaratzimas (2011), employees' performance could be enhanced with well-defined goals which are unambiguous and clear. Without unambiguous goal setting, employees may be confused, tensed and dissatisfied. As a result, employees may integrate budgetary slack to reduce work-related tension (Ross, 1995).

According to a past study conducted by Sholihin et al. (2010), when goals are unambiguous, performance level achieved will be higher. A person with clear goal will do better than someone whose goals are vague as clear goal will allow the person to know what are the tasks to be undertaken and extra efforts and time will be spent in order to achieve them. Unambiguous goal setting also has positive and significant effects towards managers' job-related attitudes and budget-related attitudes (Kenis, 1979). Instances of job-related attitudes include job satisfaction, job involvement, job tension and etc., while instances of budget related attitudes include budget motivation, attitudes towards budget and etc. A study conducted by Kenis (1979) has concluded that the more unambiguous the goal setting is, the higher the managers' job satisfaction, the lower the managers' job tension and the better the budgetary performance and cost efficiency of managers. Kenis (1979) also suggested the top management to allow employees' to participate in budget setting so that clarity of budget could be further enhanced.

An effective goal setting practice has the ability in increasing production and quality, since the employees are provided specific results to focus on (LongeneckerandScazzero, 1994). The increased production and quality would allow the organisation to stay competitive (StansfieldandLongenecker, 2006). The managers and employees should have relevant focused goals which are measurable, so that consistent measurements could be taken in monitoring the progress and encouraging the focus. When the employees are focused, appropriate positive working behaviour will be developed. Thus, performance is improved and leads to better overall organisational performance and higher profitability (LongeneckerandScazzero, 1994; StansfieldandLongenecker, 2006).

Reward and Recognition

Reward and recognition remains as an important variable in motivating behaviour. Constant and appropriate reward and recognition system will bring positive effect towards employees' work commitment in an organisation(Newman and Sheikh, 2012). This would, as a result, bring a direct effect to budget goal commitment. The reward and recognition received by employees could be extrinsic reward (i.e. tangible reward) or intrinsic reward (i.e. intangible reward). Instances of extrinsic rewards are congratulation letter, certificate, trophy and even monetary rewards. An employee could also be motivated by intrinsic rewards. Intrinsic reward, on the other hand, is intangible. Instances of intrinsic rewards are the satisfactions obtained from doing meaningful work, opportunity of career development within the organisation and etc. (Salie and Schlechter, 2012; Stumpf, Tymon, Favorito and Smith, 2013).

Long and Shields (2010) conducted a research with regards to non-cash reward system. According to Long and Shields (2010), non-cash reward system comprises of non-monetary rewards, such as recipients of such reward programme would be mentioned in the organisation's newsletter; received letters of commendation; given better opportunities to learn and develop; travel prizes and etc. These non-cash rewards, though is non-monetary, is still being considered as extrinsic rewards (i.e. tangible rewards).Long and Shields (2010) concluded that non-cash reward system is common in Canadian and

Australian companies. However, the non-cash reward system could not actually replace the cash-based performance reward system. Nevertheless, the non-cash reward system may aid in improving team-oriented behaviour, which is essential as budget attainment is an achievement of many employees.

According to an article written by Wiley and Kowske (2012), recognition alone could improve employees' performance by 15 percent. On the other hand, if recognition is given together with constructive feedback, the employees' performance could be improved by 30 percent in service sector and 41 percent in manufacturing sector. Wiley and Kowske (2012) further commented on the lack of recognition and constructive feedback in many organisations. Usually recognition is only been given to top employees, whereas lower performance employees are not given constructive feedback which allows them to excel. Thus, to improve budget goal commitment, management of organisation could provide all level of employees with appropriate recognition and constructive feedback.

Another research was carried out by Salie and Schlechter (2012) within a retail setting to test the successfulness of its reward and recognition system.It is concluded that a reward and recognition system should be clear, attractive and aligned with organisational strategy. The employees concerned should be clear about how their performances are being measured in order to "win" the reward. It is also important that the reward is made attractive.Lastly, the goal of the reward system must be aligned with the organisational strategy (Salie and Schlechter, 2012).

Based on the above discussion, it can be concluded that, in order for an organisation's reward and recognition system to have positive effect in budget goal commitment, it should carry the following criteria:comprise of both cash and non-cash rewards; constructive feedback is given along with the reward; and the reward system isclear, attractive and aligned with organisational strategy.

Budget Goal Commitment

According to many of the existing literature (for example: Chenhalland Brownell, 1988; Chong and Johnson, 2007; Shields and Shields, 1998), the inclusion of mediating variables may contribute to a clearer picture of the link between budgetary participation and performance. A recent research by JermiasandYigit (2013), for instance, uses budget goal commitment as one of the mediators for explaining the relationship between budgetary participation and performance. It is suggested by the authors that the nexus between budgetary participation and performance is indirect in the sense that participation does have an effect on goal commitment first, before affecting job performance. The result of the same study indicates that participation in the preparation of budget enhances goal commitment, which in turn improves job performance.

According to Hollenbeck and Klein (1987), goal commitment can be defined as strong determination in pursuing a goal without giving up on it or lowering its standard. The importance of goal commitment ashighlighted by Klein, Wesson, Hellenbeck, Wright andDeShon(2001), claimed that a budget itself has no motivational effect if employees have no commitment towards the goals for which they are held responsible. Furthermore, Locke and Latham (1990) proposed that employees' participation in the budgeting process is important because this will enable the employees to "own" the goal and increases their commitment to achieve it. Similarly, ErezandKanfer (1983) argued that employees who are given the opportunity to participate in setting the annual budget goals are more committed to the goals if compared to those employees who are not allowed to do so. Likewise, Chong and Chong (2002) found out that budget participation does have a positive effect on budget goal commitment for middle level managers in a cross-section of manufacturing companies in Australia. A more recent research by Chong and Johnson (2007) used 135 middle-level managers from manufacturing firms as respondents has drawn a similar result as the previous studies. This study also confirms that budgetary participation can lead to an increase in employees' commitment towards goals set and their motivational level in achieving these goals.

Budget Attainment

To improve the organisation's budget performance, behavioral accounting literature has studied the significance of budget participation by the subordinates in detail (Nouriand Parker, 1998). Participation by the subordinates in the budget process induces them to agree to and obligate to their budget goals (Merchant, 1981). Budget participation works as an informational function for the employees to collect and spread information related to their jobs to help the management process (Topper, 2007).

In terms of their budget goals, extremely dedicated subordinates are initiated to interact with their superiors and peers by providing their work goals and work strategies which would help to achieve their budget performance (Lin and Chang, 2005). By internalizing the organisation's goals, budget participation makes the employees to feel responsible. To achieve the set goals, the budget participation would lead to a situation whereby the employees would improve their performance. Reduced budget participation would deteriorate the feedback information and would lead to diminished realism. This diminished realism would lead to deteriorating performance (Woodford andMaes, 2002).

When the managers and the employees are committed to the organisation, they would accept the organisation's goals and involve themselves with more efforts to achieve the goals and finally the budget performance (Randall, 1990; Riketta, 2002). Many previous studies have found that the goal commitment has a positive relationship with the budget performance (Locke, 1968; Murray, 1990). Employees who are committed to organisational goals will work very hard and will be more efficient than the less committed employees (Locke and Latham, 1990). According to Shields and Shields (1998), increased budgetary participation improves the budget goal commitment and the budget performance.

Theoretical Foundation

To understand the employees' motivation to participate in the budget process and to achieve the budgetary goals, it is very important to study the various propositions involved in employees' motivation. Hence a theoretical approach should be followed to understand these propositions. The Expectancy Theory provides the framework for this study. Vroom's Expectancy theory of motivation explains as to how decisions are made by the people. This theory is founded by Yale University professor Victor Vroom in the year 1964. This theory explains how individuals make decisions in a situation where they get various behavioral alternatives. The propositions given by the Expectancy theory are:

1. Individuals go for the option in which the motivational force (MF) is high, when they get many options.
2. Motivational force is the outcome of the three perceptions, Expectancy, Instrumentality, and Valence.
    a) The perceived effort-performance relationship is the expectancy probability and is based on past experience, perceived difficulty and self-confidence.

    b) The perceived performance-reward relationship is the instrumentality probability. It is the belief that better performance will get a better reward.

    c) The value the individual personally gives to the rewards is the valence.

This theory suggests that the above three perceptions (valence, instrumentality, and expectancy) can individually affect an individual's motivation; collectively, these perceptions can have a dominant effect.

Expectancy theory presents a common outline to assess, interpret, and evaluate individual behavior in learning and decision making (Chen and Lou, 2002).

Chen, Gupta andHoshower (2006) made use of expectancy theory to observe the factors that motivate business faculty to carry out research and found that the biggest determinant of research productivity was the value of rewards. Estes andPolnick (2012) supported the expectancy theory and found that effort is most affected by valence perceptions. Merchant (1981) adopted the expectancy theory and found a positive relationship between budget participation and motivation.

The above discussions lead to the following theoretical framework:

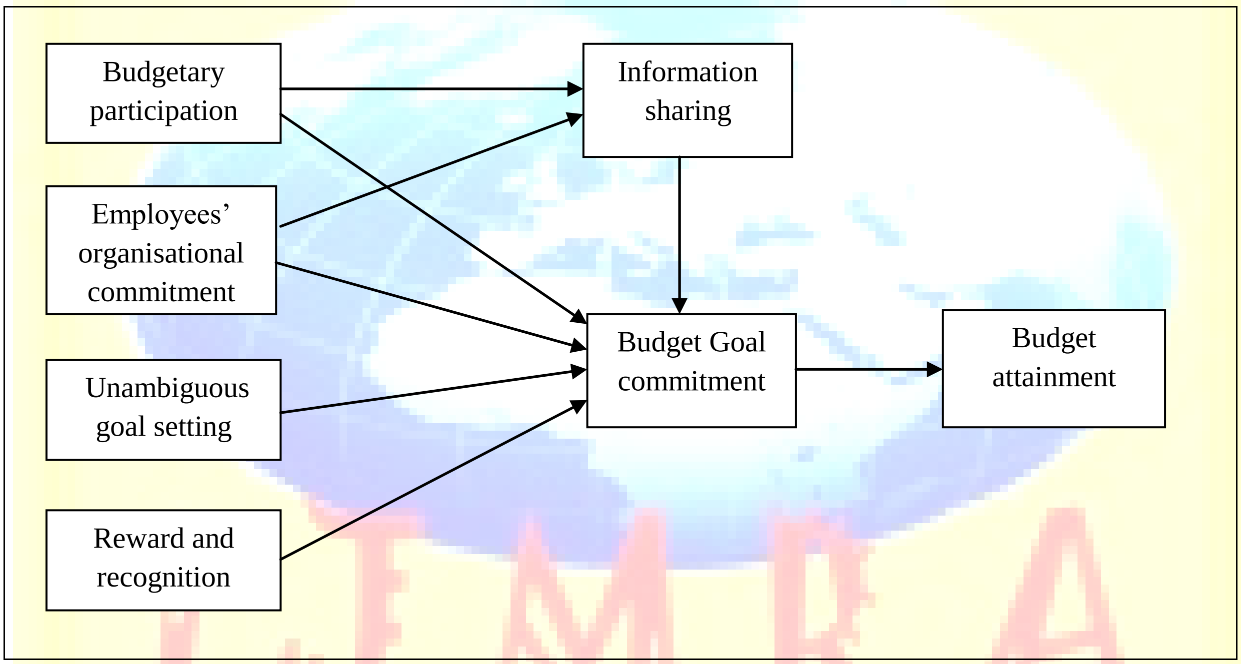

Figure 1: Theoretical Framework

Conclusion

This study sought to find out the drivers of effective budget attainment. Once the drivers of effective budget attainment are known, the management can focus on those factors to improve their budget performance without wasting time and money. The Expectancy Theory is considered as the most appropriate theory to study the drivers of budget attainment. As for improvements, further surveys and researches should be carried out to test, validate and enhance the model shown above in the Malaysian context. The results obtained will be presented in a later article.

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